A Delicate Dance: The Rise of New Developing Country Powers in the Multilateral Trading System

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Abstract: In the last decade, Brazil, India and China have emerged as powerful actors in the global economy and its governance. At the WTO, all three have major offensive trading interests – Brazil in agriculture, China in manufacturing, and India in services. They are each highly competitive producers in their respective sectors and their success in world trade has been a key driver of their recent economic dynamism and growing economic might. One would therefore expect them to be equally aggressive in pursuing their offensive interests in the current Doha Round of trade negotiations and seeking to use the WTO to remove barriers to their exports and gain greater access to foreign markets. Yet, only Brazil has assumed such a stance, becoming a major driver of liberalization in the round, while both China and India have held back from asserting their core export interests. This paper seeks to explain: (1) why these new developing country powers have behaved so differently, and (2) why certain new developing country powers have not aggressively pursued their commercial interests at the WTO. I argue that both are a result of the nature of their integration into the global political economy and consequently their export interests. Specifically, the behaviour of these countries at the WTO – whether they choose to aggressively pursue their commercial interests and seek trade liberalization – is shaped by the risks of generating a backlash that could jeopardize their current trade.
Introduction

Since the end of the Second World War, the governance of the global economy has been heavily shaped by the interests and power of the US, along with a handful of other industrialized states (Gilpin 1987; Keohane 1984; Ruggie 1996). Yet in the last decade, Brazil, India and China have emerged as major powers in the global economy – Brazil in agriculture, China in manufacturing, and India in services. At the same time, they have become increasingly influential players in global governance, challenging the traditional dominance of the advanced industrialized states and assuming a significant role in a range of international institutions and forums. The new developing country powers have joined the elite inner-circle at the World Trade Organization (WTO); increased their weight at the International Monetary Fund (IMF) and World Bank through voting reform; played a central role in the new Group of 20 Leaders Summit, which replaced the old Group of 8 developed countries as the primary mechanism of international economic cooperation; and been among the principal actors in the international climate change negotiations. Their new economic and political power raises questions about the impact Brazil, India and China will have on global governance. In this paper, I explore this by analyzing the case of the WTO, one of the strongest and most important institutions of global economic governance.

At the WTO, all three countries have major offensive trading interests: they are each highly competitive producers in their respective sectors and their success in world trade has been a key driver of their recent economic dynamism and growing economic might. One would therefore expect the new developing country powers to be aggressive in pursuing their offensive interests in the current Doha Round of trade negotiations and seeking to use the WTO to remove barriers to their exports and gain greater access to foreign markets. Yet, of the three, only Brazil
has embraced such a role, becoming a major agenda-setting force in the negotiations. In sharp contrast, China’s role has been the opposite: despite its economic might and interest in trade liberalization, it has maintained a very low profile and been a relatively marginal player in the Doha Round. India’s behaviour has fallen in the middle of these two extremes: it has played an aggressive agenda-setting role in the agriculture negotiations, but not in services, where its most significant commercial interests lie. The puzzle then is two-fold: first, why these new developing country powers have behaved so differently at the WTO, and second, why certain new developing country powers have not aggressively pursued their commercial interests at the WTO. I argue that both are a result of the nature of their integration into the global political economy and their consequent export interests. Specifically, the behaviour of these countries at the WTO – whether they choose to aggressively pursue their commercial interests and seek trade liberalization – is shaped by the risks of generating a backlash that could jeopardize their current trade.

In analyzing the behavior of Brazil, India and China at the WTO, I employ a qualitative approach drawing on 15 months of field research conducted at the WTO in Geneva, as well as in Washington, Beijing, New Delhi, Brasilia and Sao Paulo. This research involved 157 interviews with trade officials, industry representatives, and other related actors; over 300 hours of ethnographic observation; and, extensive documentary and archival research.

**States, Power and Interests at the WTO**

For over fifty years, the multilateral trading regime operated as a “rich man’s club”, dominated by the US and other advanced industrialized states (Raghavan 2000; Steinberg 2002; Wade 2003). At the WTO, and its predecessor, the General Agreement on Tariffs and Trade (GATT), the US served as the key driver of trade liberalization, at times using substantial
economic and political coercion to push other countries to open their markets to its exports and
capital (Evans 2008; Harvey 2005; Helleiner 2001; McMichael 2004). Agreements were
typically negotiated in small group meetings amongst “the Quad” – the US, EU, Canada and
Japan – and imposed upon the rest of the organization’s membership as a fait accompli (Kapoor
2006; Kelly and Grant 2005; Mortensen 2006). The US and other industrialized states carved
out a trade order that suited their own commercial interests, based on their level of development
and competitive advantage (Porter 2005; Steinberg 2002; Weiss 2005). From its inception in
1948 until the establishment of the WTO in 1995, the GATT privileged liberalization in
manufactured goods, in which the developed countries had an advantage, while agriculture and
textiles, the areas of primary interest to developing countries, were largely excluded from
liberalization. More recently, in the last Uruguay Round of trade negotiations, which led to the
creation of the WTO, the US successfully pushed for an expansion of trade rules into the new
areas of services, intellectual property and investment – all areas in which it and other developed
countries had a significant competitive advantage and developing countries would incur major
costs (Gallagher 2008; Shadlen 2005; Wade 2003). Meanwhile, due to the overwhelming power
of the US and other industrialized states, developing countries were marginalized from decision-
making at the WTO and their interests largely ignored (Finger and Schuler 2000; Kapoor 2006;

However, over the course of the current Doha Round of trade negotiations, which began
in 2001, there was a major shift in power relations at the WTO. Brazil, India and China emerged
as major players, displacing Canada and Japan from the elite inner-circle of WTO negotiations
(Warwick Commission 2008). The old “Quad” disappeared, replaced instead by a series of new
negotiating groups centered on the US, EU, Brazil, India, and China. The rise of Brazil, India
and China has significantly changed the dynamic of negotiations at the WTO, bringing an end to the traditional dominance of the US, EU and other industrialized countries. The struggle between the old and new powers has been a defining feature of the Doha Round and a key factor in its repeated breakdown (Blustein 2009).

In efforts to understand the shift in global power relations, the new developing country powers are frequently lumped together under the rubric of “the BRICs.”¹ It is assumed that their economic stories are similar – “large emerging economies” with booming exports and rapid growth – and that they will therefore act in similar ways. When differences among these countries are acknowledged, they tend to be reduced to a footnote, rather than being systematically explored or examined. However, the analysis presented here suggests that there are important differences in their economic situations – specifically, the nature of their integration into the global economy and their export interests – that shape their behavior at the WTO and their impact on global governance.

Another tendency in the literature on shifting power in the global political economy has been to assume that the direction of the shift will be towards Asia. In discussions of the rise of new developing country challengers to the US and other traditional powers, nearly all of the attention has focused on China and sometimes India (Arrighi 2007; Emmott 2008; Jacques 2009; Zakaria 2008). However, this emphasis on the purported “shift to the East” misses one of the biggest changes that has occurred in global governance: at the WTO, the most aggressive attack against the US, EU, and other traditional powers has come not from China or India, but from Brazil.

One would expect that as developing countries such as Brazil, India and China become more powerful (Hurrell and Narlikar 2006; Warwick Commission 2008), they would assert

¹ The fourth “BRIC”, Russia, is not yet a member of the WTO and thus excluded from the present study.
themselves and seek to advance their own trade interests at the WTO. This is indeed the very foundation of the WTO system – that members seek to improve their access to the markets of others (Hoekman and Mattoo 2007). Borrowing a concept from the literature on domestic policy-making, we would expect the new developing country powers to assume the role of “policy entrepreneurs” (Kingdon 1984; Mintrom 1997) – that is, actors seeking to initiate dynamic policy change – in this case, pushing for further liberalization of the international trading system to facilitate continued expansion of their exports.

Yet although they all have major export interests, the behavior of Brazil, India and China has differed significantly at the WTO. Brazil has become a key policy entrepreneur within the WTO: it has aggressively taken on the US and EU in pursuit of further agricultural trade liberalization and helped to make agriculture the central focus of the Doha Round. In the process, it has had a significant influence on the dynamics and agenda of the Doha negotiations. Brazil has effectively displaced the US as the key driver of liberalization at the WTO and become one of the most active and vocal supporters of the Doha Round. China’s behavior, however, has differed markedly from that of Brazil. It has had little agenda-setting role in the Doha Round and in no way been a policy entrepreneur in the style of Brazil. Instead, it has tried wherever possible to deflect attention and avoid any obvious projection of its power. Compared to both Brazil and China, India presents a middle case. On the one hand, India has been entrepreneurial and played an important agenda-setting role in the agriculture negotiations, where it has been a formidable force in opposition to the traditional powers. However, on services, where India has its most significant export interests, it has been remarkably quiet and non-assertive by comparison. The three new developing country powers have thus displayed differing degrees of policy entrepreneurship (see Figure 1). How then to explain the differences
in their behaviour and why some new powers are not aggressively pursuing their trade interests at the WTO?

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Figure 1. I argue that the degree of policy entrepreneurship exhibited by a new developing country power is shaped by the risk of generating a backlash that could jeopardize its economic rise. Such a backlash could take the form of reducing its existing access to foreign markets or foreclosing the possibility of expanding that access in future. For each of these countries, their economies have been transformed by a dramatic expansion of exports. Their highly competitive export sectors – whether in agriculture, manufacturing, or services, respectively – are the most dynamic in their economies. Expanding exports is a central preoccupation for each country: their new economic strength has been built on exports and their future growth trajectories are dependent upon their continued expansion. The risk of a backlash that could disrupt a country’s exports represents a significant threat, one that is shaped by the nature of its trade relations and their consequent export interests.

For Brazil, its export interests lie primarily in developing country markets, where the US and EU are its key competitors. Because it is not dependent on their markets, it was able to launch an aggressive challenge to US and EU agricultural subsidies at the WTO without fear that a backlash from these countries would significantly damage its exports. China’s situation differs in that it is highly dependent on the US and EU markets for its exports but also increasingly looking to developing country markets for its future growth. However, nearly all countries –
developed and developing alike – are profoundly afraid of the competitive threat that China poses. Any sign that it is aggressively seeking to expand its access to markets through the WTO risks generating a significant backlash that could jeopardize its current and future trade. India’s situation is similar to China’s. Its services exports are highly dependent upon developed countries markets (particularly the US), where this trade (i.e., outsourcing and temporary migration of foreign workers) is extremely controversial and politically sensitive. Like China, India has therefore had to tread very carefully at the WTO and held back from pushing for more aggressive market access and trade liberalization in its key area of interest.

Although Brazil, India and China are indeed more powerful in the global political economy, the rising powers are nonetheless constrained in how they can behave and what they can push for at the WTO. Their economic rise is precarious because based on exports and therefore vulnerable to external disruption. The appearance of aggression at the WTO creates a risk of backlash that could be extremely damaging. The developing country powers must therefore walk a careful line in order to avoid disrupting their path to prosperity and power.

Comparing Brazil, India and China at the WTO

Brazil: The Policy Entrepreneur

In the last two decades, Brazil has emerged as an agro-industrial powerhouse. For much of its economic history, Brazil was a primary product producer dependent upon the export of goods such as coffee (Cardoso 1972). Beginning in the 1930s and accelerating in the 1950s-60s, import-substitution and other policies were used to foster industrialization, while subordinating agricultural development (Evans 1979). Economic reform and liberalization policies in the 1980s and 90s, however, set off a dramatic transformation and expansion of Brazil’s agricultural sector. Market-oriented reforms, such as the removal of most state intervention from agricultural
markets and the elimination of foreign trade restrictions and barriers to foreign investment, led to
massive investment and consolidation in the agricultural sector and rapid growth in production
and exports (D Amico and Nassar 2007). In just a four year period, from 2000-2004, total planted
area grew by an area larger than the size of Italy or Vietnam (ICONE 2006). Exports grew at
rates as high as 20 percent per year (Valdes 2006). This expansion was driven by industrialized
agriculture centered on “mega farms” – large, professionally managed corporate farm groups
benefitting from massive economies of scale.

Brazil’s agricultural boom also involved a change in the types of commodities it produces
and exports. Beginning in the 1970s, Brazil invested heavily in research to adapt temperate
crops to its tropical climate and soils (Goldsmith and Hirsch 2006; Wilkinson 2009). This
innovation enabled Brazil to move away from the tropical products typically exported by
developing countries (coffee, tea, sugar, bananas, etc.) to the production and export of
commodities (soybeans, cotton, beef, chicken, pork, ethanol, etc.) that directly compete with
those of the world’s dominant agricultural producers – the US, EU, and other countries of the
global north. Technological innovation, huge economies of scale and Brazil’s natural resource
endowments (including abundant land and water) have made it highly competitive. In the case
of soybeans, for example, Brazil has been able to secure higher yields than other countries, with
the lowest operating costs in the world (Goldsmith and Hirsch 2006). Similarly, in cotton, one
Brazilian company has been able to secure yields 70 percent greater than the US, the world’s
main cotton exporter (EIU 2010b).

Brazil is now one of the most competitive agricultural producers in the world and the
leading exporter of a large and growing number of products. It is the world’s largest exporter of
beef, poultry, sugar, ethanol, orange juice and coffee; the second largest exporter of soybeans;
the third largest exporter of corn; and the forth largest exporter of pork and cotton (MAPA 2010). Brazil is the third largest agricultural exporter, after the US and EU, and the country with the largest agricultural trade surplus. Agribusiness contributes 28 percent of GDP and, while many manufacturing sectors are in decline, is considered a key source of dynamism in the Brazilian economy (Damicco and Nassar 2007; Valdes 2006). Agribusiness exports are also believed to be critical to Brazil’s macroeconomic stability, as a central means of generating foreign exchange and avoiding the balance-of-payments problems that historically plagued the country.\(^2\) Agricultural exports account for over 40 percent of exports and 97 percent of the country’s balance of trade surplus (OECD 2009). They are expected to continue to expand rapidly over the next decade and beyond.

Historically, Brazil’s position in the GATT was primarily defensive, seeking to delay or block the expansion of trade rules (de Lima and Hirst 2006). However, as Brazil’s agro-industrial sector grew more competitive and expanded, it pressed the state to take a more aggressive position in trade negotiations.\(^3\) Driven by the rise of its agro-industrial sector, Brazil has defined its primary strategic interest as seeking further agricultural trade liberalization and opening foreign markets to its exports.\(^4\) It has adopted an aggressive position at the WTO, seeking improved market access and a reduction in developed country subsidies, which are believed to impede the growth of Brazil’s exports. While the US had long been the key driver of liberalization at the WTO, over the course of the Doha Round there has been a dramatic shift in roles. Brazil has assumed the role of *demandeur*: it has aggressively taken on the US and EU in pursuit of agricultural trade liberalization and helped to make agriculture the central focus of the

\(^3\) For example, according to a Brazilian agribusiness representative interviewed, while only two Brazilian agribusiness representatives attended the Singapore Ministerial in 1996, there were more than 20 at Seattle in 1999.
Doha Round. Brazil is widely expected to be among the biggest winners from the round and it has identified its conclusion as one of its top foreign policy objectives (Polasaki 2006; World Bank 2008). Brazil has emerged as one of the most active and vocal supporters of the Doha Round and, as its impact shows, a highly effective policy entrepreneur within the WTO.

Brazil has pursued its agricultural export interests through both WTO negotiations and dispute settlement. In 2002, Brazil launched two landmark dispute settlement cases against the US and EU, on cotton subsidies and sugar export subsidies, respectively. Brazil won both cases, marking the first time that a developing country successfully challenged developed country agricultural subsidies. Moreover, these cases were of broader significance beyond the specific commodities they addressed, as they raised larger systemic issues related to the WTO-compatibility of the agriculture policies of developed countries. Brazil was also very effective – particularly through its engagement of the media, NGOs, and poor West African cotton-producing countries – in using the cotton case to raise awareness of the subsidy issue and sway public opinion in favor of the liberalization of developed country agricultural markets.

Brazil has been equally assertive within the Doha Round, where it has been a key driver of efforts to liberalize agricultural trade. Beginning at the Cancun Ministerial Meeting in 2003, Brazil drove the creation of a new coalition of developing countries – the G20 – explicitly to challenge US and EU agricultural policies, particularly on subsidies. In advance of Cancun, the US and EU jointly proposed a framework for a Doha Round agreement on agriculture. Brazil, however, was deeply dissatisfied with the contents of this proposal, which it believed significantly reduced the level of ambition in the round. In response, Brazil prepared its own counter-proposal and led the mobilization of a diverse group of developing countries to oppose the US and EU and press those countries for greater agricultural reform (Burges 2009; Narlikar...
and Tussie 2004; Narlikar and Wilkinson 2004). The G20 included both countries with offensive and defensive interests in agriculture – that is, both competitive agricultural exporters seeking liberalization and countries with vulnerable agricultural sectors seeking to protect their markets – but was able to unite in opposition to agriculture subsidies in rich countries. Brazil’s leadership was counterbalanced by the participation of India in the group, seen as the key representative of the defensive concerns of developing countries in agriculture. Brazil believed a strong coalition of developing countries was essential in order to effectively counter the US and EU and press those countries to liberalize their markets. In order to make gains on the issues of domestic support and export subsidies, Brazil was willing to sacrifice some of its ambition on market access, which was necessary to secure the allegiance of developing countries with defensive concerns in agriculture. Brazil was the engine behind the G20: it drove the group’s strategy, organization, research and technical analysis, and negotiating proposals.

The Cancun Ministerial – intended to be a key milestone in the progress of the Doha Round – ended in collapse, with the G20’s refusal to accept the US-EU proposal on agriculture a central factor in the breakdown. The consequences of the emergence of the G20 were profound, producing what one Ambassador described as “a tectonic shift at the WTO” by bringing an end to the US and EU cartel over agenda setting and compromise brokering. It launched Brazil and India – as representatives of the offensive and defensive interests, respectively, in agriculture of

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5 The G20 currently includes Argentina, Brazil, Bolivia, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, Tanzania, Uruguay, Venezuela, and Zimbabwe. The G20 also received broad-based support from the developing world, evident for example in its formation of the G110 at the Hong Kong Ministerial in 2005, which included the African, Caribbean, and Pacific Countries (ACP), the Less-Developed Countries (LDCs) and the Small and Vulnerable Economies (SVEs).


7 The proximate cause of the collapse was opposition from many developing countries to the inclusion of the so-called “Singapore Issues” (investment, competition, government procurement and trade facilitation) before the agriculture texts could even be discussed, but agriculture was widely viewed as equally, if not more, contentious (Clapp 2006). The US made it clear that it blamed Brazil and India for the breakdown (see Zoellick 2003).

8 Interview conducted in Geneva, June 2009.
the developing countries in the G20 and more broadly – into the inner circle of negotiations as key players whose consent was considered essential to breaking the stalemate and securing a deal. It also fundamentally altered the dynamic and agenda of the Doha Round. As a result of the emergence of the G20, the Doha Round has largely taken shape as a battle between developed and developing countries, with the agricultural policies of the US and EU a key focus of the negotiations. For the first time, the US – historically the key aggressor at the WTO – found itself isolated and forced to defend its own policies. Under the leadership of Brazil, the G20 has had a significant impact on the negotiating agenda – not only has it made agricultural subsidies a central issue in the round, but the negotiating texts since Cancun have substantively reflected many of its proposals.9

Brazil’s aggressive position in the agriculture negotiations contrasts markedly with the hesitant stances assumed by China and India in the negotiations on manufactured goods and services, respectively, examined in greater detail below. I argue that it is the nature of Brazil’s integration into the global economy – and specifically the nature of its export interests – that has enabled it to challenge the traditional powers at the WTO. Rather than being concentrated in the US and EU, Brazil’s exports are spread fairly evenly across a large range of countries and regions. As a result, it has not developed the heavy dependence on the US and EU markets that characterize China and India. Brazil has long faced significant trade barriers in the US and EU for many of its key export products (such as orange juice and beef in the US and poultry in the EU). To get around these barriers, Brazilian agribusiness firms used a strategy of acquiring

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9 This includes: the decision to adopt a “tiered” formula for reducing tariffs, based largely on the G20 proposal, rather than the “blended” formula sought by the US and EU; the commitment to eliminate export subsidies and discipline export credit and food aid, key demands of the G20; adoption of a tiered formula for reduction of domestic support, ensuring that countries that provide the most support are required to make the biggest reductions, as well as stiffer criteria for cutting domestic support, such as product-specific measures; and non-extension of the Peace Clause, countering the long-standing position of the US and EU.
foreign competitors in these markets and moving production there (EIU 2010b). They also
diversified their export markets, a process facilitated by the dramatic expansion of demand for
agricultural products in rapidly growing parts of the developing world. Developed countries
were once the main destinations for Brazilian agricultural products, but since 2004 most of its
agricultural exports have been destined for developing countries and other non-traditional export
destinations (Damico and Nassar 2007). Brazilian exports to the US in 2008 constituted less
than 5 percent of its total agricultural exports. The EU continues to be an important
destination for Brazil’s agricultural exports, but its share has been declining significantly as other
markets grow in importance (ICONE 2006). China is now the largest market for Brazilian
agribusiness products (EIU 2010b). Asia-Pacific, the Middle-East and North Africa, and Eastern
Europe and the former USSR are currently the most dynamic export markets for Brazil
agricultural products and demand in these regions is growing rapidly (ICONE 2006).

In the words of one Brazilian negotiator:

Brazil is a truly global exporter, not tied to any particular region or market. More
than half our exports are South-South trade and we expect markets in Asia and
Africa to represent the future for Brazilian exporters. We think this trade has a lot
of growth potential – many of these countries are already net food importers and
have limited natural resources to produce their own agricultural products. The
more these countries get richer – like China, India – the more they will need our
exports, particularly meat.11

In developing countries, more and better food is one of the first demands from consumers as
incomes rise. While the US and EU are mature markets with limited potential for growth, rapid
income growth in the developing world is driving an explosion of demand for Brazil’s
agricultural products and Brazil’s trade is now heavily oriented towards these countries.

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10 UN Comtrade Data.
11 Interview in Geneva, March 2009.
Far from being dependent on the US and EU markets, Brazil now competes with the US and EU in such third country markets. Brazil is in direct competition with the US and EU for many of its key agricultural exports, including products such as soybeans, beef, poultry, pork, corn, cotton, and frozen concentrate orange juice (USDA 2009). This has both freed and encouraged Brazil to challenge the US and EU at the WTO and to seek a reduction in their agricultural subsidies. Brazilian producers believe that by liberalizing trade and reducing subsidies, Brazil could surpass the US as the world’s leading agricultural exporter (Rohter 2005).

According to one of Brazil’s negotiators:

Structural changes in the world trading system really can provide Brazil with great opportunities in the future. The WTO negotiations are important because we will probably be displacing the big guys in the global market. That’s why we have been pushing so hard on the Doha Round and why we are the major developing country users of the dispute settlement system.12

Brazil has thus assumed an aggressive, offensive position at the WTO, challenging the traditional powers and demanding reforms of their agricultural policies.

At the start of the Doha Round, Brazil could have chosen to ally itself with developed countries like the US and EU in aggressively pushing developing countries to reduce their agricultural tariffs. However, Brazil expects demand for agricultural products in the developing world to continue to grow at such a rapid rate that it will be able to expand its exports even in the face of tariffs. It also sees the US and EU as key competitors in these increasingly important markets.13 Brazil determined that its best strategy was to reduce the competitiveness of the US and EU in these markets by forcing them to cut their agricultural subsidies. But in order to effectively counter the traditional powers, Brazil recognized that it needed other developing country allies. It therefore willingly sacrificed its market access ambitions – its interest in having

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12 Interview in Geneva, March 2009.
both developed and developing countries reduce their tariffs—in order to make alliances with other developing countries and gain the support it needed to challenge developed country agriculture subsidies. Brazil was not constrained by fear of a backlash from the main targets of its aggressive stance on subsidies—the US and EU—because it is not dependent on their markets, but instead sees them as its primary competitors in the developing country markets that represent the most important source of future growth. In addition, Brazil was willing to sacrifice its defensive interests in other areas of the negotiations—such as industrials—in order to secure these potential gains in agriculture.

*The China Paradox*

Just as Brazil has enjoyed rapid growth in its agricultural exports, China’s manufacturing exports have also boomed in recent decades. China began its transition away from a centrally planned economy with a gradualist program of market-oriented reforms in 1978. A key aspect of its reform program was the creation of Special Economic Zones to attract foreign investment and process goods for export. China’s exports expanded rapidly—initially concentrated in cheap manufactured goods (such as apparel and footwear), but steadily moving up the value-chain to more sophisticated and higher value-added manufactured products (such as electronics, machinery and equipment). Its exports were further accelerated after it became a member of the WTO in 2001, after a lengthy process of negotiating the terms of its accession. In the last three decades, China has quickly become the “workshop of the world,” as the world’s largest exporter of goods and second largest manufacturer (after the US, which many predict it will soon surpass).

China’s manufacturing exports have provided the motor for its astonishing economic growth in the last three decades, at rates averaging close to 10 percent (Guo and N'Diaye 2009).
They have transformed China from a poor and largely peasant-based agrarian economy into the world’s second largest economy and an industrial powerhouse. In the process, China has also amassed the world’s largest foreign exchange reserve, in excess of US$2.5 trillion, and become a major creditor to the rest of the world and especially the US. Fuelled by export-led growth, per capita incomes have tripled and poverty rates have declined from 85 percent to 27 percent, lifting over half a billion people out of poverty (World Bank 2009).

China’s economic transformation and its success in reducing poverty are without historical precedent. Yet, poverty remains a significant problem in China; approximately 250 million people continue to live in extreme poverty, making it the country with the second largest concentration in the world (World Bank 2009). Poverty is particularly great in rural areas, fuelling massive rural to urban migration. Continued poverty and rising inequality have also raised the potential for social unrest. In order to continue to reduce poverty, as well as to face the dual challenge of absorbing an ever-growing mass of migrant workers from rural areas and urban unemployment stemming from the restructuring of state-owned enterprises, most estimates suggest that China must continue to grow at rates of at least 8 percent per year. Despite efforts to stimulate domestic demand, particularly in the wake of the global financial crisis, its economy remains heavily dependent on exports (Guo and N'Diaye 2009). China thus faces significant need to continue to expand its exports. This is further compounded by concerns that it may “grow old before it grows rich” (Goldman Sachs 2006) – that looming demographic changes (a rapidly aging population combined with the effects of the one-child policy) may impede its future growth prospects, putting additional pressure on China to ensure rapid growth in the near term.
However, China continues to face barriers to its manufacturing exports that hamper their further growth. Its economic rise has been heavily dependent on exports to developed countries, particularly the US and EU, which alone each account for more than 23 percent of its exports.\footnote{These figures refer to total goods exports, not solely those of manufactured goods, but over 95 percent of China’s goods exports consist of manufactured goods. Data from UN Comtrade and IMF.} Developed countries as a group receive two-thirds of China’s exports. Yet in these markets China continues to face high tariffs (tariff peaks) for some of its key export products (such as textiles and clothing and footwear) and extensive non-tariff barriers. In contrast, many of China’s main competitors enjoy duty-free access to these markets through preferential trade arrangements targeted at least-developed countries (LDCs).\footnote{These include the EU’s Everything But Arms (EBA) initiative and the US’s African Growth and Opportunities Act (AGOA), Caribbean Basin (CBERA) and Andean Trade Preferences (ATPDEA) arrangements.} As the locus of global economic growth shifts to the global south, developing countries – particularly the most rapidly-growing large emerging economies – represent an increasingly attractive market. Yet most developing countries have high rates of tariff protection on manufactured goods. In addition, both developed and developing countries make extensive use of anti-dumping and safeguard measures to block Chinese exports; China is the most frequent target of such measures globally (WTO 2009b).

One would expect that China would therefore be aggressive in seeking to use the WTO to reduce such barriers and maximize its export potential. But this has not been the case. In contrast to Brazil, China has assumed a comparatively passive role and kept to the sidelines for most of the Doha Round. It has tried to maintain a low profile and avoid drawing attention to itself. Negotiators consistently report that China has not been an active force in the negotiations, describing it as “very quiet” and “a little on the outside of things.”\footnote{Interviews with WTO negotiators and officials, September 2008-June 2009.} As one negotiator stated, “China is not out there as a demandeur seeking market access concessions.” For example, in the negotiations on industrials, China could have pushed for a stricter tariff-reduction formula with
fewer flexibilities for developing countries, as well as additional sector-specific negotiations to reduce tariffs even more aggressively (“sectorals”).17 Instead, in the words of another negotiator, “they stay behind and do not take on a prominent position at the forefront.”18 If anything, China has been “happy to sit back and let others take the role of leader” and even “effectively let Brazil and India run their participation” at the WTO.19

Far from asserting itself, China has tried to downplay its strength at the WTO. In their speeches and other communications, its diplomats in Geneva consistently emphasize China’s “developing country-ness”: its large population of rural poor, low per capita GDP, struggles to provide employment and absorb large-scale rural-urban migration, and vulnerability to external market forces. At the same time, they downplay the other side of China – the economic powerhouse and highly competitive exporter who strikes fear in its trading partners large and small. Its negotiators actively work to project an image of China as a poor developing country, which can be seen as a strategic choice shaped by China’s unusual position at the WTO.

Although China has clear offensive interests in the round, it also has compelling reasons to be cautious and not come out looking too aggressive in the negotiations. Paradoxically, the very same factors that make it economically powerful also make it vulnerable in international economic forums, especially those related to trade. As a trading powerhouse in an organization designed to get countries to open their markets, “everyone is more or less frightened by China,” as one WTO official stated.20 Countries are gravely concerned about China’s industrial capacity and the competitive threat that it poses. For many countries – both developed and developing –

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17 The industrial goods agreement being negotiated will allow developing countries to undertake a lower level of tariff cuts and provide them with significant additional flexibilities. Many of these flexibilities are expected to be used against products from China, yet China has not pushed against them. Nor has China pushed for sectorals, although as the world’s most competitive exporter across several areas of manufacturing, many predict that it would be one of their largest beneficiaries.
18 Interview with WTO negotiator, May 2009.
19 Interview with WTO Secretariat official, March 2009.
20 Interview with WTO Secretariat official, March 2009.
competition from China has already wiped out major parts of their manufacturing sectors and much of their resistance to further opening their markets comes from concerns about competition from China’s exports.\footnote{Examples abound: while Mexico’s textile exports to the US boomed as a result of NAFTA, they have since fallen significantly as a result of displacement by cheaper Chinese exports. Similarly, nearly all of Brazil’s shoe- and toy-making sectors have been wiped out by lower-cost products from China: “It’s impossible to compete against China in these sectors,” according to a Brazilian industry leader (The Economist. 2008. "The dragon in the backyard: Latin American geopolitics.") Under pressure from Chinese competition, Turkey lost 10 percent of the jobs in its textile sector in just two years. (Bloomberg. 2007. "China’s Power Erodes Free-Trade Support in Developing Nations.") In 2009, India slapped a temporary ban on toy imports from China to protect its domestic industry, with its Trade Minister stating: “Look, we don’t mind you exporting to India, but not to an extent that can kill my domestic industry.” (Reuters. 2009. "India to put safeguard duty on China aluminium.")} Developing countries, for example, have both lost market share to China in third country markets, such as the US, as well as in their own domestic markets.

Given the competitive threat that it poses to many countries, China continually faces the danger that they will seek to constrain its exports. For instance, as quotas for textiles and clothing – which had provided many countries with a degree of protection from Chinese competition – began to be phased out with implementation of the WTO Agreement on Textiles and Clothing (ATC), a broad-based coalition of industry groups from developed and developing countries launched a major campaign at the WTO seeking to extend the quota system. Likewise, a group of developing countries and LDCs, led by Turkey, pushed for a special work program in the Doha Round on textiles and clothing – to include a monitoring mechanism and the use of special safeguards to block Chinese exports – and later sought a carve-out that would separate textiles and clothing from the regular negotiations on industrial goods, remove it from the general tariff reduction formula, and slow liberalization in this sector. Although these specific initiatives did not move forward, the pressure they generated ultimately forced China to “voluntarily” restrict its textile and clothing exports to the US and EC. Situations such as these, in which other countries try – through the WTO or otherwise – to contain competition from Chinese exports, pose a significant threat to China.
In addition, China’s large and rapidly growing economy makes it a major target for countries seeking access to its market. This is manifest, for example, in the fact that China faces efforts – particularly by the US – to treat it as a developed country in the Doha Round and therefore subject it to stricter liberalization commitments (compared to the more generous special and differential treatment afforded to developing countries). This is particularly problematic for China as it seeks to continue its economic growth by moving up the value-chain into producing and exporting more sophisticated goods. To undertake such industrial upgrading, it needs to be able to protect these sectors until they are sufficiently competitive.

China walks a delicate line at the WTO. Any sign of assertiveness or aggression on its part risks generating a backlash that could potentially restrict its access to the export markets it is so dependent upon. Rather than actively pursuing additional liberalization or market access, China has thus sought to appear as non-threatening as possible and fly below the radar at the WTO. In the words of one US negotiator: “China tries to be really quiet, because they know they are the target.” A developing country negotiator similarly summarized China’s behavior as follows:

China is not out there as a demandeur, aggressively seeking market access concessions. China is too wise for this. They are the largest exporter in lots of areas, even with existing market access barriers. If they ask for more, they are only going to get problems. That is precisely why they are not asking for more market access.

A Secretariat official concurred: “China has made a simple calculation that it’s not in their interests to get out in front, because then they would draw more critique. I am sure they think

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22 Interview with WTO negotiator, March 2009.
23 Interview with WTO negotiator, April 2009.
there is enough China-bashing already.”  China does not want to provoke a reaction by aggressively demanding more access to other countries’ markets.

The China paradox is that its economic power – its massive exports and large domestic market – renders it vulnerable at the WTO and imposes significant constraints on its behaviour, preventing it from aggressively pursuing its interests in trade liberalization. For China, standing out and taking an aggressive stance in pushing countries to further open their markets runs the risk of generating a powerful backlash, not only against China but potentially against the entire multilateral trading system and its goal of liberalizing trade. China cannot risk rocking the boat: as a result, it has taken a comparatively passive role, made little effort to set the agenda at the WTO, and in no way been a policy entrepreneur in the style of Brazil. Instead, it has tried wherever possible to deflect attention and avoid any obvious projection of its power.

India: An Intermediate Case

Like both Brazil and China, India’s economy was transformed by a program of economic reform. Following independence from British rule in 1947, India’s economic policy was heavily shaped by its experience of colonialism. It focused on cultivating national economic development through state intervention, protection from imports, import substitution industrialization, and fostering of the domestic market. However, India experienced a serious deterioration of its external economic position during the 1980s, including worsening trade imbalances and rising external debt and debt servicing costs. The situation was brought to a head in 1990-91, when the Gulf War caused India’s oil import bill to rise dramatically, exacerbating its trade deficit and prompting a withdrawal of investment and credit. This created an acute balance-of-payments crisis: India’s foreign exchange reserves were reduced to such an extent that it was on the verge of being unable to finance its imports and the government was

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24 Interview with WTO Secretariat official, March 2009.
close to default. India was forced to airlift its gold reserves to London as collateral for an IMF loan. With its echoes of the colonial era, this produced a national outcry, which caused the government to fall and led India to chart a course of neoliberal economic reform still ongoing two decades later. India’s economic reforms have included opening the country to international trade and investment, deregulation, privatization, tax reform and inflation-controlling measures.

In the last decade, India has emerged as one of the fastest growing economies in the world, with rates of nearly 10 percent growth in recent years, second only to China. India’s impressive economic performance has been driven primarily by the rapid growth of its services sector and exports (Downes 2009; World Bank 2004). In the last two decades, India’s exports of services displayed one of the fastest rates of growth in the world, growing at rates as high as 35 percent per year (WTO 2009a). The areas of information technology (IT), IT-enabled services (ITES) and business process outsourcing (BPO) have grown particularly rapidly, with ITES-BPO expanding at an average annual rate of around 50 percent since 1993 (EIU 2008). India has been among the chief beneficiaries from developments in information technology that have enabled companies in the developed world to “outsource” many aspects of their operations to lower-cost producers (including software development, call centers, payroll and accounting services, radiology and medical transcription, financial industry research and analysis, legal research and writing, and product research and development). India has captured the majority of the world market for outsourcing of IT-BPO services, due to its advantages such as low costs (approximately 70 percent less than source locations), a large supply of highly-skilled, educated, English-speaking workers, and strong scientific and technical capacity (NASSCOM 2010). Its most competitive producers are also quickly moving up the value-chain to more sophisticated and higher value-added services (Hoekman and Mattoo 2007).
While India has some of the poorest human development indicators in the world, with the majority of its population dependent on subsistence agriculture and extremely high rates of poverty (Jha 2006), its “services revolution” (World Bank 2004) has seen the emergence of a cutting-edge and globally competitive knowledge-driven services export sector. Services now constitute over 35 percent of India’s total exports (WTO 2010), with 26 percent alone coming from the IT-BPO sector (NASSCOM 2010). The IT-BPO sector is the best-performing in the Indian economy; its contribution to national GDP has grown from 1.2 percent in 1998 to 6.1 percent in 2010 (NASSCOM 2010). Relative to other large emerging economies, India is not a major trader: it supplies only a small fraction of world merchandise exports (just over 1 percent) and has a significant deficit in trade in goods (WTO 2010). As a result, India’s services exports – which have grown far more rapidly than its merchandise exports (Chanda and Sasidaran 2007) – are especially important for its balance of payments. The industry sees opportunity for significant future expansion (NASSCOM 2010) and services exports are expected to continue to grow rapidly (at approximately 20 percent per year) and be a key source of dynamism in the Indian economy (EIU 2010a).

India’s development aspirations depend to a considerable extent on its ability to sustain the rapid growth of its services sector, which depends in turn on its ability to secure improved access to foreign markets (Chanda and Sasidaran 2007; Jha, Nedumpara, Das, Karthikeyan, and Thakur 2006; World Bank 2004). Services is thus the key area of offensive interest for India in the Doha Round negotiations. Two aspects of the services negotiations are of particular importance to India: Mode 1, the cross-border supply of services from the territory of one state to another (i.e., outsourcing) and Mode 4, the temporary movement of persons across borders to supply services (i.e., workers entering a country temporarily to carry out particular jobs and

25 By comparison, China’s goods exports, for example, are more than ten times larger.
provide labor inputs).\textsuperscript{26} Significant barriers to India’s services trade still remain in these areas, particularly in Mode 4 (Jha et al. 2006). Mode 4 – labor mobility – is the area where the trading system has seen least liberalization; it is viewed as a potentially huge area of gain for developing countries, dwarfing the goods aspects of WTO negotiations (Winters, Walmsley, Wang, and Grynberg 2003). Mode 4 (e.g., an Indian software firm sending employees to the US to work on-site for its clients) is particularly important for India because 30 percent of the work of its outsourcing firms takes place on-site (while only 70 percent takes place in India).\textsuperscript{27} In Mode 1, India has a significant interest in securing access to foreign markets to counter current and future protectionism, in the form of outright bans and conditions imposed on outsourcing contracts by developed countries. The industry has identified the prospect of a rise in protectionism in its major markets as one of the greatest potential threats to its future health and expansion (NASSCOM 2010). Through the Doha Round services negotiations, India could lock-in existing access to foreign markets with legally binding commitments at the WTO to pre-empt potential protectionism, as well as seek to expand that access.

Given India’s keen commercial interests in services trade, we would expect it to be proactive in seeking services liberalization, particularly in Modes 1 and 4, at the WTO. Yet, while India has been seeking gains in the services negotiations, it has not been doing so aggressively. As one former Indian trade negotiator stated, summarizing the sentiments expressed by other trade officials and industry representatives interviewed: “India has not been so vocal or aggressive in pushing for services liberalization at the WTO.”\textsuperscript{28} A trade advisor to the Indian government echoed this assessment, stating: “There is definitely a feeling that we haven’t been

\textsuperscript{26} At the WTO, services trade is categorized into four types or “modes” of supply. The others are Mode 2, consumption abroad, and Mode 3, commercial presence.

\textsuperscript{27} Interview with Indian services industry representative, New Delhi, March 2010.

\textsuperscript{28} Interview in New Delhi, March 2010.
pushing as hard as we could be in services.”²⁹ Both Indian negotiators and industry acknowledge that there has been little progress in the services negotiations: industry does not expect major gains in the negotiations, with representatives stating that “services have been a no-go,” and even its own negotiators indicate that “India is not getting anything from the US or the EU.”³⁰ According to one industry representative, “If it happens, liberalization in services will be driven more by the needs of developed countries and their companies pushing, rather than by developing countries like India.”³¹ India seems resigned to moderate expectations in the services negotiations, and rather than seeking to aggressively pursue its offensive interests in this area, its strategy in the Doha Round has been primarily defensive, with much of its attention focused on agriculture and industrial goods.

Yet India is clearly not afraid to stand up and challenge the traditional powers in other areas. India has, for example, played a central role in the agriculture negotiations, as a leader of developing countries and a major figure in coalitions such as the G20. Its motives, however, differ significantly from those of Brazil. India has a large population of peasant farmers, who are vulnerable to trade liberalization and carry considerable weight in domestic politics; its interests in agriculture are therefore primarily defensive (that is, seeking rules that would allow developing countries to protect their domestic markets from imports). For India, the G20 provided a means to go on the offensive against the developed countries by targeting their agricultural subsidies, consequently revealing the hypocrisy of the US and EU and delegitimizing their position in the Doha negotiations. This helped to significantly strengthen India’s negotiating position and its ability to protect its defensive interests, by providing cover and enabling it to push back against the demands of the US and EU. India has also been a

²⁹ Interview in New Delhi, March 2010.
³⁰ Interviews in New Delhi, March 2010.
³¹ Interview in New Delhi, March 2010.
driving force behind the G33, a coalition of developing countries with defensive concerns in agriculture. Despite substantial opposition from the US, EU and others, India has been vociferous in demanding – and successfully securing – commitments for special safeguards and flexibilities for developing countries in agriculture (the “special safeguard mechanism” and a “special products” exemption from tariff reduction commitments). Even prior to the Doha Round, India had a history of being one of the most pugnacious countries in the negotiations and routinely the last holdout against US demands. India’s unwillingness to cave into the demands of the traditional powers has been identified as a key reason for the repeated breakdown of the Doha Round (see, for example, Zoellick 2003).

However, India has been aggressive only in seeking to protect its defensive interests but not in pursuit of its offensive interests. Compared to its vocal and attention-grabbing opposition to the US and EU on agriculture, India has been remarkably quiescent in services, despite its significant economic interests in this area. One possible explanation is that India cannot be aggressive in services because it is so defensive in agriculture. However, Indian trade officials deny that they are sacrificing ambition in services for defensiveness in agriculture.\(^{32}\) Having engaged in significant unilateral liberalization – in services, agriculture, and industrials – India’s current trade policy in a number of sectors is significantly more liberal than the access commitments it made under the Uruguay Round. As a result, many experts believe that India could afford to take a far more aggressive position in the services negotiations, without having to make significant sacrifices in other areas, such as agriculture (World Bank 2004).\(^{33}\) Moreover, if India was trading off an offensive position in services in order to enable it to better defend its sensitivities in agriculture, one would expect the services industry to be profoundly dissatisfied at

\(^{32}\) Interviews in New Delhi, March 2010.

\(^{33}\) This view was also expressed by many negotiators in Geneva as well as officials and experts in New Delhi.
having its interests sacrificed. However, India’s services exporters express satisfaction with the work of negotiators and – unlike Brazil’s agro-industrial sector, for example – have not pushed the Indian government to be more aggressive on their behalf. As one industry representative stated, “Indian industry is not expressing frustration that the government is not pushing harder on services.” On the contrary, the services sector believes the government is working appropriately in support of their interests, as reflected in the comments of two other industry representatives: “Whatever inputs we have given to the government, they have taken them. There’s no problem there.” and “Their negotiating position more or less reflects our own position.”

How then to explain India’s reluctance to assert itself in the services negotiations? Like China, India is heavily dependent on developed country markets, and particularly the US, for the bulk of its services exports. The US is the largest market for India’s IT-BPO services, for example, accounting for 60-70 percent of its exports (NASSCOM 2010). Yet services exports are a highly politicized issue in the US and other developed countries, where there is considerable popular concern over outsourcing and its impact on domestic unemployment. The movement of people across borders to supply services, Mode 4, is perhaps even more contentious; it generates substantial political resistance in many high-income countries because of its associated with migration (Hoekman and Mattoo 2007). The dramatic expansion of Indian exports and perceived exodus of white-collar jobs in countries like the US is beginning to provoke protectionist sentiments and measures. As one Indian services industry representative stated,

We are very concerned about rising protectionist sentiment in the US. Our industry is the favoured whipping boy for unemployment in the US. That is our

34 Interview in New Delhi, March 2010.
35 Interviews in New Delhi, March 2010.
biggest challenge. We are very concerned that some shotgun legislation could go through at any point. And we think we are seeing indirect protectionism even now, with visas being denied, raids on outsourcing places, etc.36

Although India would ideally like to obtain rules at the WTO to secure and expand its access to the US and other markets, being seen to pursue such a change risks generating a backlash that could jeopardize its current trade. In the words of one services trade expert and advisor to the Indian government,

The services trade issues like Mode 4 are very sensitive. The more they lobby and come into the limelight, the worse things will be for them. They are very sensitive, the areas where we have our export interests. The more you lobby, the more problems you create for yourself.37

For example, even when the US recently introduced discriminatory new rules doubling the visa costs for Indian outsourcing firms bringing workers to the US (expected to add $200 million per year to their annual costs), Indian industry acquiesced with only muted protest, expressing that it was “sad and disheartened” by the change, but quickly dismissing any suggestion that it would take retaliatory action (Financial Times 2010; Washington Post 2010). India has therefore held off, like China, from aggressively pushing for more market access and trade liberalization in its key area of interest at the WTO. Instead, the Indian services industry has preferred to do its lobbying quietly and behind the scenes, such as through private meetings with US legislators on Capitol Hill.38 In multilateral negotiations at the WTO, India has been enterprising and assertive in seeking to protect its defensive interests but not in pursuit of its offensive interests.

Conclusion

Despite tendencies to lump the new developing country powers together, they have in fact behaved very differently at the WTO. Brazil has been aggressive in pursuing its offensive

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36 Interview in New Delhi, March 2010.
37 Interview in New Delhi, March 2010.
38 Interview with Indian services industry representative, New Delhi, March 2010.
trade interests in agriculture, waging a major campaign against developed country agricultural subsidies that has made it one of the most influential actors in the Doha Round. China, on the other hand, rather than pushing other countries to further open their markets to its manufacturing exports, has instead kept a low-profile and had a far more marginal role in the negotiations than its economic importance would suggest. India has walked a middle ground between these two extremes: while it has been strident in defending its defensive interests in agriculture, it has held back from an equally forceful assertion of its interests in the services negotiations, where its key export interests lie. It is the risk of a backlash that could jeopardize its current and future trade that has prevented India and China from aggressively pursuing trade liberalization at the WTO. This is a reflection of the delicate dance of the rising powers, whose economic rise is based on exports to foreign markets. As a result of this dependence, they need to be careful not to make a misstep that could endanger their exports and future growth, leading to a cautious stance in global trade governance.
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