

BRICS Economic Cooperation in Post-Bali Era

Abstract: BRICS economy and the intra-BRICS trade growth have maintained its momentum compared with world level in the past 15 years. Currently, BRICS economic cooperation has entered into a new stage, where intra-BRICS trade reached a stable growth, recent WTO Doha negotiation encounter impasse and on-going negotiation on mega-agreements is in flourish, BRICS need to push forward the current WTO trade negotiation, while explore more opportunities for further economic cooperation in different fields.

Keywords: BRICS, Economic Cooperation, WTO.

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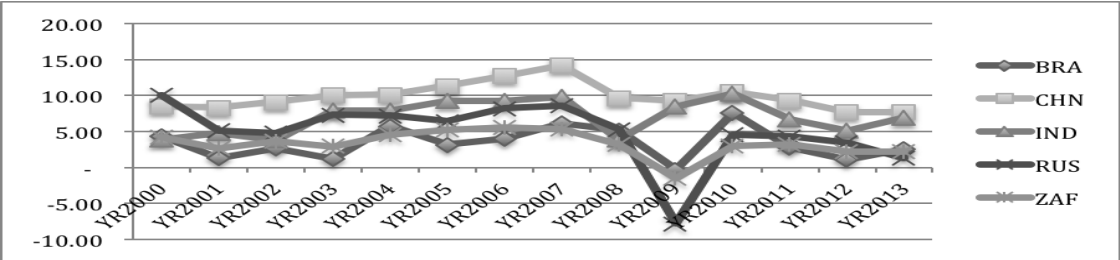
Zhao Zhongxiu

The BRICS cooperation has come into the center of world's attention since its inauguration in 2006. This cooperation has been evolving and culminated in 2009 with the first BRICS summit held in the context of global financial crisis. Since then, BRICS has been gradually developed into a multi-level mechanism for member countries in international politics and global economy. With the guidance by BRICS Summits, and support by BRICS ministerial meetings, intra-BRICS economic cooperation has born fruits in various areas. By pushing forward the IMF quota and governance reform, strengthening multilateral trading system and advancing Doha Round negotiations, BRICS keeps on improving global economic governance. One noticeable milestone is the establishment of the New Development Bank and the Contingent Reserve Arrangement. As a result, the voice and representation of BRICS and other emerging market and developing countries have increased.

1. Stable Development of BRICS Economy

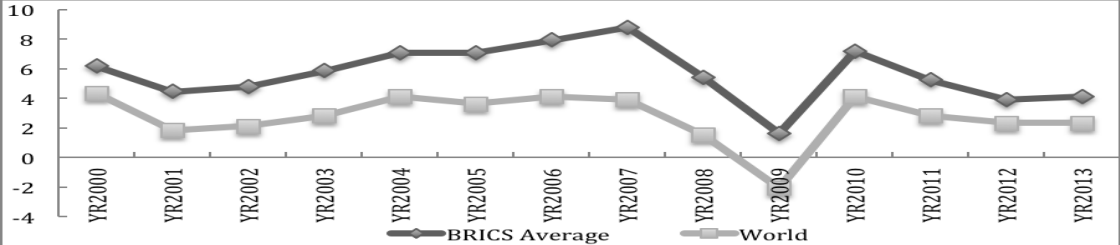
BRICS economic development has been in line with the world tendency, but maintained a relatively higher level for the past 15 years, as shown in Figure 1 and 2. Also, intra BRICS trade has been increasing steadily. However, trade volume tend to maintain at around 350 billions from 2011 to 2013. This situation underlines great potentiality that calls for joint effort by all BRICS to initiate new cooperation scheme to further stimulate their economic growth.

Figure 1 BRICS GDP Growth Rate (Change from the Preceding Year)(%)



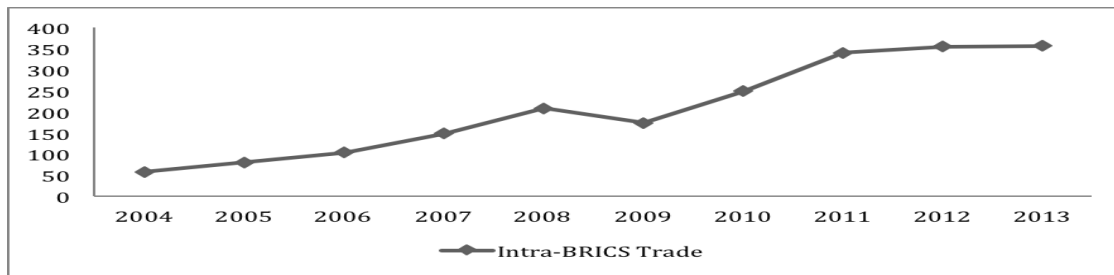
Data source: World Bank Databank

Figure 2 BRICS Average GDP Growth vs World (Change from the Preceding Year)(%)



Data source: World Bank Databank

Figure 3 Intra-BRICS Trade (billion dollars)



Data source: UNCTAD, <http://comtrade.un.org/data/>

2. Challenges for the BRICS Economies

BRICS in recent years have come up with similar external stress from the global economy. High possibility of higher interest rates in U.S. in 2015 has already surge the dollar exchange rate. This is especially true for BRICS members, indicating higher borrowing costs and a possible outflow of funds to the U.S.. Strains in the debt repayment capacity especially in energy sector may become more evident in Brazil and South Africa, as well as in countries reliant on oil revenues. The sharp dollar appreciation entails additional risk management for corporations and countries with large foreign currency debts.

The "new normal" theory was elaborated by Chinese President Xi Jinping at the Asia-Pacific Economic Cooperation (APEC) in Beijing. "A new normal of China's economy has emerged with several notable features. First, the economy has shifted gear from the previous high speed to a medium-to-high speed growth. Second, the economic structure is constantly improved and upgraded. Third, the economy is increasingly driven by innovation instead of input and investment."¹ The essence of the "new normal" is not just about speed. It is

¹ Seek Sustained Development and Fulfill the Asia-Pacific Dream, Address by Chinese President Xi Jinping To the APEC

more relevant to an improved economic structure that relies more on the tertiary industry and consumption demand, and innovation. China's planned reforms are far-reaching and have the potential to transform the economy. The reforms could enhance welfare by boosting private consumption and making growth more sustainable, although the economy could initially slow down to some extent. While the near-term impact on the rest of Asia is generally expected to be small, most economies in the region could benefit from the rising consumption in China.²

Sharp decline in oil and other commodity prices have had impact on South Africa, where growth is held back by mining strikes and electricity supply constraints in 2014. South African has made efforts to be integrated into global value chains, manufacturing, agriculture and agri-business, and to a lesser extent, transport, tourism, and textiles, have benefited the most from deeper integration.³

The impact of the recent sharp drop in commodity prices on Latin America's major economies will have important implications for their fiscal and external positions going forward. Several commodity exporters including Brazil will likely experience a significant and persistent drop in fiscal revenues. Historical evidence suggests that the deterioration in trade balances will be relatively moderate and short lived.⁴ However, external adjustment typically does not

CEO Summit, 9th November, 2014. Ministry of Foreign Affairs of the People's Republic of China Website: http://www.fmprc.gov.cn/mfa_eng/topics_665678/ytjhzzdrscldrfzshyjsxghd/t1210456.shtml

² IMF Regional Economic Reports: Asia's Momentum Is Set to Continue, Last Updated: October, 2014, website at : http://www.imf.org/external/pubs/ft/reo/2014/apd/eng/c1_0414.pdf

³ IMF Regional Economic Reports:Sub-Saharan Africa Navigating Headwinds, April, 2015, website at: <http://www.imf.org/external/pubs/ft/reo/2015/afr/eng/pdf/sreo0415.pdf>

⁴ The Commodity Price Bust: Fiscal and External Implications for Latin America, <http://www.imf.org/external/pubs/ft/reo/2015/whd/eng/pdf/chap3.pdf>

appear to be driven by a rise in non-commodity exports, but rather by acute import compression. Brazil, for instance, had lost about one-third of their boom-period CTOT⁵ gains by mid-2014, ranging from 1 percent of GDP to 3 percent of GDP in the same period.⁶

In India, the growth forecast is broadly unchanged, however, as weaker external demand is offset by the boost to the terms of trade from lower oil prices and a pickup in industrial and investment activity after policy reforms.⁷

So there is great necessity for BRICS to stay together and explore for further economic cooperation to secure stable economic growth. For China's part, structural adjustment policies are implemented and with the "One Belt, One Road Strategy"(Silk Road Economic Belt and Maritime Silk Road Strategy), this could be very possible to evolve into a "One Belt, One Road +" strategy and become compatible with other BRICS members economic development to serve as the platform to deepen the BRICS cooperation.

3. The Mega-agreements and WTO in BRICS Perspective

While BRICS countries were still beginning their participation on the multilateral trading system as members of the WTO, major players such as the United States and the European Union were changing their attention from the WTO to the negotiations of preferential trade agreements, where negotiations of the Doha Round were at an impasse, despite the success of the Bali Ministerial.

⁵ The CTOT is a chained price index. It is constructed by weighting changes in prices of individual commodities by their (net) export value, normalized by GDP. A given increase (drop) in CTOT can then be interpreted as an approximate gain (loss) in GDP terms.

⁶ The Commodity Price Bust: Fiscal and External Implications for Latin America, <http://www.imf.org/external/pubs/ft/reo/2015/whd/eng/pdf/chap3.pdf>

⁷ IMF World Economic Outlook Update: Cross Currents. January, 2015. Website: <http://www.imf.org/external/pubs/ft/weo/2015/update/01/>

The difference between traditional trade and supply-chain trade is the one reason why the current mega-agreements diverse from the WTO trade negotiation. Traditional trade means selling into one nation the goods that were made in another nation; thus is mostly about selling things internationally. Supply-chain trade arises when high-tech firms combine their know-how with low-wage labor in developing nations, thus is mostly about making things internationally, although international selling is also important.⁹ As such, the basic deal in supply-chain cooperation is not “I will keep my market open if you keep yours open”, but rather “I will offshore my factories and technologies if you assure my tangible and intangible assets are protected”. And that is why investor-state dispute settlement in TTP and TTIP is so important. However, for China and other BRICS members, their top priorities in trade negotiation centers more on the market accession and tariff reduction rather than investor protection. This kind of difference in negotiation priority explains well of the very existence of the current mega-agreements.

The new rules and disciplines underpinning the rise of supply-chain trade have been and continue to be written outside the WTO – primarily in deep mega-agreements. Efforts to harmonize these new disciplines are taking place in mega-regionals (for instance, the on-going negotiation of the Trans-Pacific Partnership–TPP and the Transatlantic Trade and Investment Partnership–TTIP)

⁸ In the field of international trade, Brazil, India and South Africa were founding members of the GATT. China acceded to the World Trade Organization – WTO in 2001, after 15 years of negotiations. Russia has only acceded to the organization in 2012, after 19 years of negotiations, becoming the last big economy to enter the WTO.

⁹ Richard Baldwin, WTO 2.0: Global Governance of Supply-chain Trade, Policy Insight No.64, December 2012, website at http://www.cepr.org/sites/default/files/policy_insights/PolicyInsight64.pdf

and mega-bilaterals that are under negotiation or discussion. As the Doha Round is unlikely to conclude before 2020 and WTO engagement in supply-chain issues is unlikely before it does, world trade governance particularly on supply chain trade is headed for fragmentation. Specifically, supply-chain disciplines will be harmonized by mega-regionals and mega-bilaterals that will, on current trajectory, exclude China and other BRICS members.

(1) Mega-agreements and BRICS

The US and the EU for decades have led the negotiations under the multilateral trading system. With the enlargement of the WTO and the accession of several developing countries, the negotiations became more complex. The active participation of Brazil and India during the Doha Round, especially in agriculture, leading the developing countries and opposing the propositions of the US and EU is a good example of how the “old quad” (US, EU, Canada and Japan) lost its importance and gave place to the “new quad” (US, EU, Brazil and India with China as a recently acceded member). This created a new geometry of negotiating power, given more influence to developing countries, and introducing difficulties to the US and the EU to impose their position in multilateral negotiations as happened in all GATT negotiations.

The attention of the US and EU was, thus, drawn to the preferential sphere, where they could negotiate individually with other trade partners, achieving to establish new market access and drafting new trade rules. This movement helped the proliferation of preferential trade agreements that is seen today.

These agreements often present rules that go beyond the WTO framework

(WTO-plus rules) as in services or intellectual property or that deal with subjects outside the scope of the organization, such as environment, labor clauses, competition and investments (WTO-extra rules). Each major player presents its own model of rules regarding the main issues of international trade, proposing such framework to its trade partners and, thus, expanding the application of rules that answer to their interests, in a clear exercise of domination by the rules. The situation raises more concern with the launch of the two called mega-agreements: TPP and TTIP. ¹⁰The agreements propose numerous WTO plus and extra rules such as enhanced intellectual property protection, regulation of e-commerce, competition rules, liberalization and protection of investments, regulation of trade related aspects of state owned enterprises, provisions on small and medium sized enterprises, rules of international supply chains, amongst other themes. ¹¹

With the mega-agreements and the deadlock of multilateral negotiations, the position of BRICS in international trade is threatened. The countries that form the BRICS are outside the negotiations of the mega-agreements and, consequently, of the market liberalization that will be achieved and the negotiation of new rules for 21st century trade. BRICS will have to adapt to a number of the requirements established by these two agreements without having participated in the drafting of such rules, and thus, without being able to impose its own interests and perspectives in the regulation of such themes.

¹⁰ see more details at <https://www.dfat.gov.au/fta/tpp/> ; <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/>

¹¹ FERGUSSON, I; COOPER, W.; JURENAS, R.; WILLIAMS, B., The Trans-Pacific Partnership Negotiations and Issues for Congress, Congressional Research Service Report for Congress, junho de 2013, p. 47-48 and Interim Report to Leaders from the Co-Chairs EU-US High Level Working Group on Jobs and Growth, June 2012

WTO and BRICS

Now, BRICS are already a political reality and the BRICS display a solid political unity in favor of reforms in the rules and structures of the existing international order. However, the WTO remains as the only forum where the BRICS may exercise their pressure and influence international trade governance. It is the one international trade forum where all five countries participate, allowing all five countries to coordinate their positions, strengthening their power of bargain. Under the WTO, the BRICS will be more able to make their interests on the drafting of new trade rules prevail.

Reforming the multilateral trading rules in order to level the playing field and to reflect a new balance of power, interests, and views is the challenge and main objective of the Doha Round and a necessary step for the WTO as an institution. The current deadlock in negotiations underscores the linkages between geopolitical transformations and the multilateral trading system.¹² Doha Round was caught in the middle of a tectonic shift in the global balance of economic power. The rise of China, Brazil and India, among other emerging countries, had an impact on the WTO negotiations and affected the negotiating structure and processes.

An important development in recent times is the coordination among the BRICS in the WTO discussions. The BRICS held trade ministerial meetings in Sanya (April 2011) and in Geneva during the 8th WTO Ministerial Conference

¹² Braz Baracuhy, Brazilian diplomat-Embassy of Brazil to China, Former WTO Doha Round Negotiator in Geneva, The Geopolitics of Multilateralism: the WTO Doha Round Deadlock, the BRICS, and the Challenges of Institutionalized Power Transition, website at:

<http://www.crp.polis.cam.ac.uk/documents/working-papers/crp-working-paper-4-geopolitics-of-multilateralism.pdf>

(December 2011), the ninth ministerial conference in Bali, Indonesia (December 2013), Sixth BRICS Summit in Fortaleza, Brazil (July, 2014). From these occasions, it is possible to identify an emerging BRICS' outlook on international trade policy:

(i) Recognition of due rights, equal opportunities and fair participation of all countries in global economic, financial and trade affairs; The centrality of the multilateral trading system and the vital role of the WTO as the guardian of the international trade regime; the need to strengthening and reforming the current international trade regime through the conclusion of the Doha Round to address in particular the concerns and interests of developing countries.

(ii) Support the WTO dispute settlement system as a cornerstone of the security and predictability of the multilateral trading system and support BRICS ongoing dialogue on substantive and practical matters relating to it, including in the ongoing negotiations on WTO Dispute Settlement Understanding reform.

(iii) Recognition of the importance of Regional Trade Agreements, which should complement the multilateral trading system, and of keeping them open, inclusive and transparent, as well as refraining from introducing exclusive and discriminatory clauses and standards.

(iv) Recognition that the BRICS should play a leading role in South-South cooperation and aid-for-trade initiatives; the continuous development of an institutional framework and concrete measures to expand economic cooperation both among BRICS countries to further expanding economic, trade and investment ties and between BRICS countries and all developing countries,

within a South-South perspective;

The BRICS should reactivate the WTO as the major negotiation forum for international trade regulation. The Ministerial Conference of Bali was an important achievement that may help this goal. The conference approved the first multilateral agreement since the creation of the WTO. Even though what was agreed in Bali represents just a small part of the Doha package, its success gives a boost to multilateral negotiations.

4. Suggestions

The mega-agreements would cause significant losses for the economies that are not part of these agreements, which will suffer from losses in their exports and imports and will be isolated from the creation of rules for new important trade issues. In the meanwhile, the WTO, which allow all countries to benefit from increasing larger market access and from the development of consensus based international trade rules, is the priority for BRICS in the current world trade governance. This reactivation of the WTO should also be considered a priority for the BRICS foreign trade policy. The momentum is favorable, since the post-Bali agenda is being discussed, allowing the BRICS to influence the decision on the new themes of international trade regulation.

Under this scenario, the future for the BRICS economies needs to find new driving forces through in-depth cooperation. Large domestic market is one advantage that BRICS can leverage on. Through closer economic cooperation, BRICS can start by identify their respective important export and import field. They all have different factor endowment, and thus the partnership can be

complementary. For the mega-agreements side effect on BRICS, China and other BRICS members may counter this exclusion by joining together to form a closer economic partnership by continuously attract offshored factories with their large international market.

Forwarding pragmatic cooperation among BRICS. The best example is the establishment of BRICS New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), two initiatives designed to facilitate infrastructure investment and prevent external shocks respectively. Besides, there're over 20 more areas of cooperation, ranging from finance, trade, science & technology, to public health, agriculture, culture and people-to-people contact. As a result, the linkage that bounds BRICS countries together has been significantly tightened, which will in turn greatly unleash the collective potentials of the five countries and benefit their people to the same extent. Efforts made by BRICS countries to further their cooperation have been paying back. Today, the five countries have turned the investment concept into a new type of cooperation among emerging economies, which has significantly lifted their collective status in the international arena.

Take China's recent strategy for instance. The vision for a "One Belt and One Road Strategy", allows the countries involved to create a three-dimensional and multi-layer transport network that connects them via land, sea and air. That includes the New Eurasian Continental Bridge, which is regarded as the 'modern Silk Road', the China-Singapore Economic Corridor that runs through the Indo-China Peninsula and the Bangladesh-China-India-Myanmar Economic

Corridor that connects China to South Asia. Through this strategy, China and all other BRICS can be better connected and this transportation network will help to speed up the intra trade growth in the short future. Also, energy cooperation, goods and service trade, and economic cooperation among BRICS members will be speed up. This BRICS version of “One Belt and One Road Plus Strategy” will be part of BRICS grand economic cooperation.

Proposals for the BRICS economic cooperation at multilateral trade regime could include:

(i) Improvement of market access of goods and services, as well as reduction of subsidies in agriculture at WTO. Agriculture still presents higher tariffs and more flexible rules to subsidies, which harms agricultural exports. The granting of subsidies, because it affects all exporters, independently of their origin, is traditionally dealt on the multilateral level. The agricultural market is of great interest for the BRICS and the WTO constitutes the ideal forum to discuss the reduction of barriers to these exports.

(ii) Enhancement of the transparent mechanism regarding PTAs. The WTO needs to better study each clause of the several PTAs currently in force, analyze the compatibilities and incompatibilities amongst them and with WTO rules, and discuss mechanisms to assure coherence of international trade rules, avoiding the negative impacts of fragmentation.

(iii) Improvement of the mechanisms of notification and special trade concerns in the Technical Barriers to Trade Committee and Sanitary and Phytosanitary Committee. These mechanisms are important to the transparency

of these non-tariff barriers, which frequently constitute significant obstacles to international trade. Special attention should be given to the issue of private standards that require new transparency mechanisms in order to avoid negative impacts on trade.

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