Reorienting multilateralism? International insertion in changed conditions of globalization: the role of China and policy spaces for Brazil

Project Proposal CEBRI/IBRACH

Project Objective

This project aims at discussing and researching a current dilemma: how the deterioration in the multilateral scenario and changed conditions of globalization is altering the regulatory and policy environment for insertion in the global economy by emerging economies. It will look into two trends: changes in multilateralism as an instrument of international regulation and negotiation, its potential re-orientation and the policy challenges posed by the transitions to a digital and low carbon economy for the participation of emerging economies in particular Brazil in the global economy.

The project objective is to: identify issues, analyze trends and map out implications in order to create parameters for policy making. It hopes to give clarity to issues in the current international policy debate and to single out questions of particular relevance to large emerging economies such as Brazil.

Present Controversy

The current trade conflicts between the US, China and the EU, seems to be giving credence to the fact that the asymmetric multipolarity which characterizes the world today, diminishes rather than enhances the efficiency of multilateral economic institutions and agreements (Laidi, 2018). The decline of multilateral economic institutions is particularly pertinent to Brazil who has been an active contributor to the multilateral system since its onset. For Brazil, multilateralism has been a path for insertion in the global economy but also a forum from which to express its international vision and ambitions (Fonseca, 2015).

The US policy of withdrawal from multilateral agreements as: climate, TPP, the Iran nuclear deal and the stall of the WTO panel for solution of controversies indicates a policy of retrenchment from multilateral institutions and of redefinition of national interests. A political stand which is at odds with the global nature of the US economy and financing system and the system of regulations and institutions which has been guiding the economic scenario since the end of World War II.

The US policy of selective withdrawal from multilateral institutions is not new; it had already been in existence in the Bush and Obama administrations. But the present administration seems to be consolidating a path of rupture and change. For many analysts this withdrawal from the multilateral world represents the end of a permanent tension in US foreign policy between Wilsonian and Rooseveltian ideas. That is between the concepts that foreign policy should be shrouded in universal principles and the idea that foreign policy should be oriented by strategic national interests (Kissinger, 2014). In this context, the America first policy, is not a digression, but an affirmative victory of the view that foreign policy should be constantly redefined and guided by national interests.

In the history of US foreign relations, policies which set forth strategic interests tend to be responses to perceived challenges of political ascension and position in the international economy. Such was the case of the Monroe Doctrine. After the Second World War, once the global expansion of the US economy was in due course, foreign policy came to be identified with the idea of universal principles or rules based institutions (Anderson, 2017).

The present exit of the US from the multilateral scenario is for many analysts more than a choice for a nationally oriented commercial policy. It is a political response to the rise of China, the resurgence of Russia and the need to guarantee strategic interests in sectors which are believed to be threatened: finance, technology and military defense capabilities. But it also reflects a perception of limits in the possibility or effectiveness of regulation by multilateral institutions.

Moreover, the exit of the US from the multilateral scenario is but one aspect of the changes occurring in international economic relations. Existing international regulatory institutions have for some time been under stress from emerging tendencies of globalized capitalism. The fragmentation of production spheres, global value chains, the rise of global investments and the shift in value from manufacturing to services have put a stress on the ability of traditional multilateral institutions to offer a regulatory environment in par with the contemporary production system. The diversity of political and economic organization of the countries participating in the global economy adds an additional governance difficulty.

The fact that the American retrenchment from multilateralism coincides with nationalist upsurge within the European Union points towards a more widespread discontent with the losses produced by globalization but also a decline in faith on collective institutions to administer global capitalism. In Europe a nationalist turnabout is undermining the power of the existing European economic institutions already under stress by functional and representational discrepancies.

The divide between the nature of the transactions in the global economy: global value chains, services or investments and the national definition of economic interests, increases regulatory tensions in the global economy. It also diverts attention from the profound changes in the technological paradigms of production and shifts in global asset values which are now taking place, leading many analysts to refer to the next years as the emergence of a “new economy”.

An economy where the growth drivers are increasingly dependent on technological innovations and investment capacities where technological services rise in value in contrast to traditional manufacture and externalities and invisible rents associated with innovation determine geographies of production. The transition to a low carbon economy introduces various levels of complexity to this economic scenario. Energy transitions are industrial policies and technological choices which compete for value and standards in the global market. As natural resources are transformed into economic assets their exploration and or preservation opens up new avenues for regulation of public goods. A low carbon development model is an economic value which could also be construed as a political asset.

At present old and new issues coexist in the international scenario. Trade controversies and barriers to entry, issues which are particularly pertinent to developing countries searching to increase participation in the global economy are enhanced and coexist with complex issues of taxation of globalized services, intellectual property and regulation of non-tradeables and public goods.

Beyond or around the WTO?

The standoff in economic negotiations in the WTO shows the operational limits of consensus based organizations in a widely diversified system of economic relations. The organization faces increasing difficulties in reaching agreement in global negotiations in a context of growing disparities of claims from member states. It is also challenged by the complexities and regulatory difficulties of innovation externalities and how they apply to trade. Moreover, the retrenchment of positions of the US and many European countries, with regards to the WTO goes beyond the stalemate in negotiations or the complexities of technology. It indicates doubts about control and capacity of containment of the organization.

The institutions for economic regulation created in the post war and expanded and reformed in the beginning of the large globalization wave of the 80's shared a vision that increased participation in trade and in rules based multilateral institutions would bring about a certain international synchronization or harmonization of economic models. The height of this vision is perhaps the idea, now disavowed, of Fukuyama of the universalization of western liberal democracy as the final form of human government (Bethell, 2018).

The vision propagated by the traditional Breton Woods Institutions, but also the OECD, that global economic relations can be regulated by a system of rules which stems from the very nature of capitalist relations no longer seem so evident or an accepted cannon of major industrial countries. The entrance of China into the WTO changed this perception. In spite of tough entry conditions established by WTO members, China prospered while reaffirming its diversity as a state led market society. In fact, the toughening of requirements for entry in the OECD show that traditional institutions are revising their understanding of what constitutes economic best practices.

The loss of faith in the natural convergences amongst industrial economies contrasts with the rising acceptance in and out of academic circles that in spite of the global nature of investment and trade which would lead to the acceptance of the existence of a "global capitalism", at the national level, varieties of capitalism, diversity more than homogeneity characterizes the international system (Hall & Soskice, 2001; Karo & Katell, 2014). While varieties of capitalism and disparate business models of competition may increase policy options for insertion in the global economy they also complicate regulatory policy spaces.

The search for common solutions for the financial crisis of 2007-2008 is a case in point. The crisis rekindled multilateral consultations and the search for collective solutions to what had become a global problem. The G20 formerly a consultation group restricted to finance became a political governance/ consultation group. Quantitative easing in different forms became a worldwide policy response to the crisis. But, while the crisis enlarged the membership of the Basel group it did not enhance the mandate or empowerment of global institutions. Rather after the adoptions of tougher banking standards, economic policies, following the height of the crisis, returned to national "best practices" outside of the range of international regulations.

Re-orienting multilateral politics

The difficulties facing traditional multilateral economic organizations have not prevented new multilateral arrangements from emerging. Since 2012, China has been championing the creation of several new multilateral institutions at the regional level, which have global scope and growing international participation. The fact that the traditional UN centered multilateral system is under fire but a new system of regional multilateral institutions under the umbrella of China is gaining international strength and acceptance seem to indicate that multilateralism as a policy instrument is still very much alive.

The new institutions championed by China such as the Asian Infrastructure Investment Bank, the Silk Road Fund, the financial facility of the Shanghai Cooperation Agreement, the New Development Bank and the BRICS compensatory facility have certain key elements in common. They are financial instruments with sectoral scope, mostly restricted to infrastructure and related fields. They have been launched by China and backed by large Chinese reserves although now the funding structure has been broadened within and outside the region. Their goal is furthering trade, production and connectivity without specific regulatory mandates outside the realm of the projects championed. While they favor green projects which can facilitate the transition to a low carbon economy they are active in infrastructure and logistics as a whole. That is they promote but do not purport to regulate transactions.

While the new multilateral institutions fill voids in finance and trade promotion, they do not address important gaps in the global economic regulatory environment. A situation which highlights the increasing discrepancy between the global nature of production, the increasing importance of public goods and the absence or aversion of compliance with norms which may transcend short term exchanges.

Moreover, the new institutions coexist with a proliferation of plurinational trade agreements between Asian countries and Asia and Europe and or even Pacific Latin American countries. The recent agreement between Japan and the European Union shows that while evolving from an Asian trade environment the trend is not conscribed to Asia. In fact in spite of trade skirmishes between the US and the EU a series of trade talks are under way with the view of increasing advantages but also regulations. This scenario creates difficulties for countries which rely on the global agreements fostered by the multilateral system for increasing insertion in the global economy.

Is a New Regulatory System emerging?

The shortcomings in representation and regulation of the UN centered economic and political regulatory institutions are of course not new. The call for reforms of the UN has almost coexisted with its expansion. A call for reform is now underway at the WTO.

Emerging economies have since the eighties pushed towards the reform of the Breton Woods Institutions so as to guarantee a greater inclusiveness and wider representation. The creation of the G20 and the BRICS institutions are responses to evident gaps of representation. The functional limitations of the G20 and the BRICS reveal both flaws and potential reform paths of the existing post war institutional set up. The waves of expansion and retrenchment in international institutions respond to cycles of crisis when the need for governance becomes more evident and thereby acceptable.

The regulatory system of the traditional Breton Woods Institutions and the UN economic organizations were always more universal in principle than deed. They were limited as a covenant and in their geographical and political representation. The rules and regulations of the UN institutions have been forged by a coalition of interests which no longer represent the central forces of the international economy. The shift in economic value and growth from the Atlantic to the Pacific and the importance of emerging economies in global economic transactions weights on the operational capacity of the post war institutions.

In addition to problems of political and economic representation, existing multilateral economic institutions face the regulatory difficulties of a world of global production chains and very disparate business models amongst economic players. They struggle to provide level playing fields to all players in the system and guarantee systemic gains in exchange for compliance.

In this context an important distinction is emerging between sector limited, plurinational versus global economic negotiations. The success of the WTO information technology agreement stands in sharp contrast with the stall in global WTO negotiations indicating that partial regulations move forward especially when they operate within the economic model of global value chains. The reconvening of the Trans Pacific Alliance, TPP, now without the United States and the emergence of the Pacific Alliance in Latin America point towards the growth in plurinational trade agreements with more precise goals and regulatory ambitions. It also underlines the importance of regional organizations and alliances with global scope.

Moreover, the difficulties facing regulatory systems today go beyond diversity of economic models and the struggle between interest and compliance, they also have to do with the profound changes occurring in the production system, the nature of economic assets and the fact that value in today's economy is often more related to non tradeables and externalities associated with the innovation economy.

The transition to digital and low carbon economy introduces new elements in global competition. Digitalization and the widespread application of 4.0 technologies to production will launch a race towards standards which will pose further complications to the system. In the "new economy", finance will extrapolate the limits of banking institutions and technology will be separated from manufacturing. While difficult to anticipate how these changes will affect regulatory norms at an international level it is clear that a race towards what may constitute global standards is taking place.

At the core of this challenge is how we define global production what is considered tradable and non-tradeables and how norms can be established to regulate the externalities of production. Connected to this issue is also the transition to a low carbon economy. An important development question emerges: how can we set value and regulation to assets which are natural resources. A matter of great concern for emerging economies such as Brazil

The model of global value chains which set the trend of the globalization wave of the last twenty years is in transformation. Relocation as an economic advantage is being balanced against the benefits of an innovation environment where industrial and service commons can contribute more to an innovation economy and production. In this new scenario value added and trade will be more and more associated with services with all the normative difficulties associated which the regulation of externalities in services (Mazzucato, 2018).

Insertion in the global economy: before and after China

For most emerging markets the International economy is an uneven and unequal playing field where they struggle against important asymmetries to gain successful entrance. Access to capital, vulnerability to external shocks, and concentration of technology rents has placed most emerging economies in the bottom of the smile curve of global economic rewards. Few countries have managed to confront all the asymmetries of the international economy and complete industrialization with technological upgrading. Some have managed to move into high income brackets and escape some technology rents. This is the case of Asian latecomers and now of China.

The multilateral system offered opportunities of inclusion and voice, a space to contend a level playing field in international regulation. In this regard it has always been perceived as a favorable instrument of insertion in the global economy. Rules, while drafted by the strongest economic players, were a manner to prevent a continuous strategy of kicking the ladder of countries ascending in the financial and technological race.

However, there is a dynamic interaction between successful national entries and global policy spaces. Because of relevant power asymmetries opportunities for entry and exit are always a flux and new entries alter the dynamics of competition. This is clearly the case for the value of commodities, agricultural products, energy and technology after the rise of China.

Castro (2011) has shown that the rise of China has changed the political economy of international relations and reversed old theories concerning what is center and what are peripheries. The increased demand for commodities China engendered together with its capacity to produce low cost technology goods has altered the value of assets in the global economy. In so doing the rise of China has reversed the prediction of Prebish regarding the inexorable decline in prices of commodities and natural resources. Climate change and its effects on agricultural production is an additional game changer, resetting the value of water, winds, and solar power and forest surfaces.

The globalization wave of the 90's which opened windows of opportunities for many large emerging markets has come to a halt with the financial crisis of 2008. The increasing complexity of economic production changes competitive strategies. At the heart of the "new economy" are issues such as standards for digital production and services, the commoditization of natural resources, and the importance of non-tradable assets in the composition of value added. Competition for advantages in the new economy will be at the center of the global exchanges and determine levels of insertion in the global economy.

For emerging economies the stakes are high and the coming years will bring a toughening of competition in old and new areas. It will be more difficult to market low technology goods, commodities will be subject to increasing technical standardization and changes in production paradigms will require higher levels of investments in technology and services. Moreover multilateral negotiations and strategies which tended in the past to protect the asymmetric position of emerging economies have come to a halt. In the present international economic scenario much effort needs to be employed to gain access or increase value added in particular sectors of production and services without the benefit of wholesale negotiation tactics.

Disruptive Technologies and Competition in the Global Economy

The advent of the digital economy and the transition to low carbon are two international benchmarks with significant consequences to trade, investment and international competition. Most global economies have drafted plans to guide the transition to the digital economy aiming at the reorganization of production, services, exports and impact on employment. Germany's industry 4.0 is the best European example and China's 2025 it's more comprehensive Asian counterpart. Central to these programs is the assumption that global competition for value added in products and services will depend on digitalization standards and inclusiveness and that global value chains will be redesigned according to competitive innovation criteria. The digital economy is not limited to any specific realm of production and services, in fact the production of commodities and competitive agriculture are also part of this economic transition.

Technological innovation is already an important component of the production of commodities and competitive agriculture in big producing countries such as Australia and Brazil. But what is a production trend at home is not necessarily translated into an export product. That is innovation helps productivity in the agro-business but does not necessarily increase the competitiveness of the export product of large emerging economies such as Brazil. Large scale investments, service benchmarks and globalization of standards are still important key factor for increasing trade abilities. Digitalization is also a process with externalities within production and service sectors and the technological choices and standards adopted have implications for the overall economy and how its products enter into the global market

In what concerns the energy transition, both European and Chinese economies have already stipulated a time frame for transition from fossil fuels and have adopted industrial and investment policies to facilitate the execution of these targets. Oil companies are hedging the transition by investing in alternative energy sources and products. There are multiple roads to the energy transition but technological choices will also become industrial choices and transform global value chains. What standards and technical solutions are adopted will once again condition the terms of insertion in the global economy. While resource rich countries such as Brazil have the benefit of a green energy matrix, how they choose to adopt practices of resource efficiency, regulate and attribute value to its natural resources can be a significant determinant to their growth strategy. Once again China will be a determinant player in this transition acting both as the prime consumer of energy, food products and commodities and a principal developer of digital and telecommunication technologies.

Old and New: What are the issues

The purpose of this project is to discuss how major shifts in the multilateral economic environment, the role of China and the transition to a digital and low carbon economy, condition policy options and strategies of insertion in the global market. The main objective of the project is to map out trends and issues which should guide the strategic thinking of emerging economies.

The project starts with the assumption that multilateralism is central to international relations and a relevant policy instrument for participation in the global economy but that the international context which favored multilateralism and global negotiations has changed. As argued by Fonseca (2018) , the present international scenario is best characterized by the contrasting forces of economic globalization and at the political level strategic fragmentation .We witness both a withdrawal and reorientation of the old multilateral order, be it as a result of changing dynamics of international power, declining results of the global and inter-regional negotiations or the creation of new institutions which promote trade but do not address regulatory frameworks. There are also important externalities in the digital economy and the transition to a low carbon economy which affect the international trade and regulatory scenario which must be taken into account. Both trends have patterns of investment and technological standards which influence competition in the global market and require a new mindset with regards to regulation and trade.

Taking international insertion as a dependent variable, this project proposes to explore issues which may determine patterns and policy options for the insertion of emerging economies in the global market. It will look into how business models, new assets from the digital economy and the use of scarce natural resources affect regulatory policies and bring both rewards and conditions of entry for competing in the international economy.

The project will be divided into three main themes and blocks of question.

1. Changes and reorientation in the multilateral economic scenario

The institutional pillars of the multilateral economic arrangements are the WTO, IMF and the World Bank. The study will look into the problems and questions that pertain to these institutions and the limits and new directions of multilateral economic arrangements and policy spaces opening as a result of the redirection of international relations. The study will focus primarily on trade and secondly on capital flows issues.

The choice to prioritize trade issues comes from the fact that trade issues disclose in a very clear way the nature of conflicts between national political and institutional structures of economic growth and the dynamic of comparative advantages in world trade. The interdependency between institutional arrangements for trade and global insertion were overlooked throughout the 90's. The breakdown of Doha negotiations to achieve an agreement, illustrates the constraints and obstacles to accommodate different views related to the rules of games in world trade.

In order to chart these questions the study will look into the following issues.

- Analyze the key points of the debate and economic literature on the difficulties of WTO to deal with the changes in the new trade geography and production models.
- Discuss the impact of China in the multilateral trade scene; in particular evaluate the degree of compliance of China, USA and European Union with WTO rules, analyzing the Dispute Settlement Mechanism and the Trade Policy Review.
- Identify the main aspects of Asia regionalism and West regionalism and select issues to contrast multilateral and bilateral/regional agreements
- Possible selected issues: investment; financial services; movement of persons; rules of origin; government procurement; subsidies discipline; and sectoral agreements.
- Analyze the difficulties to include in the multilateral negotiations themes that have been included in some trade agreements such as labor and environment standards, the role of small and medium enterprises, special clauses related to the movement of people.
- Analyze the increasing role of private standards/norms to organize regional/global trade flows and production. Identify China's performance in this matter.
- Build up possible scenarios for the multilateral trade institution.
- Analyze the main implications for Latin America, specially Brazil in the scenarios above mentioned.
- The issue of capital flows is related to the role of the IMF. It will be analyzed the proposals of the BRICS in the G 20 debate about the reforms of the financial institutional architecture.

2. The impact of China in shaping competition in the international economy

- What are the evolving investment strategies of China given the current difficulties posed by the tradeconflicts.
- What characterizes the new multilateral financial institutions sponsored by China?
- Direction of the Global Investment Drive and the Belt and Road initiative: is the BRI evolving into a trade and industrial strategy? What institutional arrangements support

the initiative? Are there regional and geographical variations in the institutional frameworks of the BRI?
- Does the BRI open new opportunities for insertion in the global economy and does it translate into production and or service value chains?

3.Disruptive technologies and energy transitions: policy and regulatory issues

- How are disruptive technologies affecting the shape and geography of global value chains?
- Does the new production architecture open spaces for regional cooperation and common regulatory practices?
- What are the new business architectures of the innovation economy and their implications for entry into the international economy?
- How does the transition to a low carbon economy affect emerging economies with advantages in natural resources as assets? Can emerging economies forge competitive advantages from a sustainability platform?

Methodology

- Organizing a research network with participants from Brazil, China and international institutions.
- Exploring diversity of views
- Drafting policy papers per issue/areas
- Organizing workshops per issue/areas
- Drafting a Final paper of conclusions

Work program

The project will bring together a core group of researchers from: CEBRI, IBRACH, Tsinghua University, UNCTAD and the Universidad del Pacifico in Peru. It will promote a dialogue between fields of expertise which are increasingly converging: analysis of international regulations and trade relations and the economics of technology changes and international insertion.

The research proposes the organizations of two workshops. Each workshop will review issue papers prepared on the main points referred to in the outline above. A synthesis document with the main issues will be prepared for circulation and review between the two workshops.

The final output of the research is to be a policy framework outlining the alternatives present in the multilateral and regional scenario and the variables of the new economy which can play a game changing role in determining competitiveness and insertion in the global economy.

Time Table

- Organizing a research network with participants from the region, China and international institutions, drafting terms of reference for the issue papers. January 2019-March 2019
- Data gathering and consultation March 2019-June 2019
- Drafting policy papers per issue/areas June-August 2019
- Organizing workshops per issue/areas September 2019-January 2020
- Drafting a Final paper of conclusions December 2019-March 2020

Coordination

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