

REBALANCING AND THE POLITICAL ECONOMY OF TRADE: A DIPLOMATIC PERSPECTIVE¹

Clodoaldo Huguene²

The world order is going through a period of great transformation, in which Brazil is a relevant actor and can influence the course of changes as well as is affected by them. In such context, the present text brings a scenario analysis of the uncertainties and points to possible lines of evolution mainly on the trade front, pointing suggestions and recommendations regarding Brazilian trade policy. This text is not properly an academic paper, but rather a contribution to the debate of Brazilian trade policy from a diplomat with an extensive experience in trade negotiation.

Keywords: international order; trade policy; Brazil.

REAJUSTAMENTO E ECONOMIA POLÍTICA DO COMÉRCIO: UMA PERSPECTIVA DIPLOMÁTICA

A ordem mundial passa por um período de grandes transformações, em que o Brasil é um ator relevante e capaz de influenciar o curso das mudanças, bem como é afetado por estas. Nesse contexto, este artigo traz uma análise de cenário de incertezas e aponta para possíveis linhas de evolução, principalmente na frente comercial, apresentando sugestões e recomendações em matéria de política comercial brasileira. O trabalho não é propriamente acadêmico, mas sim uma contribuição para o debate da política comercial brasileira sob o ponto de vista de um diplomata com uma extensa experiência em negociação comercial.

Palavras-chave: ordem internacional; política comercial; Brasil.

REEQUILIBRIO Y LA ECONOMÍA POLÍTICA DEL COMERCIO: UNA PERSPECTIVA DIPLOMÁTICA

El orden mundial está pasando por un período de gran transformación, en el que Brasil es un actor relevante y puede influir en el curso de los cambios, así como se ve afectado por ellos. En tal contexto, el presente texto aporta un análisis de escenarios de las incertidumbres y señala posibles líneas de evolución, principalmente en el frente comercial, señalando también sugerencias y recomendaciones con respecto a la política comercial brasileña. Este texto no es propiamente un trabajo académico, sino una contribución al debate de la política comercial brasileña desde la perspectiva de un diplomático con una amplia experiencia en negociación comercial.

Palabras clave: orden internacional; política comercial; Brasil.

JEL: F01, F10.

1. Este artigo foi submetido à revista *Tempo do mundo* pouco antes do lamentável falecimento do autor. Sua publicação é uma pequena homenagem póstuma ao ex-embaixador de tantos méritos e considerável potencial.

2. Ex-embaixador do Brasil na China.

1 INTRODUCTION

We are going through a period of great transformation in the world order. These changes predate the crisis but were strengthened by it. They involve a possible redesign of the world order from a unipolar to a multipolar world, and the repositioning of countries and regions. They also involve a reexamination of the nature of growth and development models and of economic and political systems. The current period could be characterized as a transition period in the sense that the power relations that prevailed internally and externally are undergoing important changes in the nature and direction of which is under discussion. The outcome of this process is still undetermined.

Internally, there is an open debate on the nature of the capitalist system and the changes it needs to go through to avoid crisis, to remain an engine for growth, modernization and innovation and to correct some of its flaws, like income concentration. The paths to economic development are also under discussion with the demise of the Washington consensus and the prospect of a Beijing Consensus underpinned by almost forty years of extraordinary growth and by the Chinese response to the crisis. On the political front, the democratic consensus is also under discussion and nationalism and authoritarian forms of political and social organization are on the ascendant. Even if the central tenets of the liberal democratic regime are not questioned the way it works and the methods employed to arrive at decisions and to implement them are being questioned and we witness again a resurgence of the interest on a more meritocratic view of the organization of government together with increasing limits to individual liberties.

At the regional level, there is a displacement of the center of globalization from the Atlantic to the Pacific. The ascension of China, which is a central factor in this displacement, is changing the nature of globalization. Production and trade chains, especially in East Asia, are changing the patterns of trade and investment flows. These developments are already having consequences at the normative level with the new ideas about how to promote liberalization plurilaterally and multilaterally. Models of regional integration are under questioning. The European model of deep integration through a process of horizontal expansion and vertical deepening is facing difficulties only in part due to the recession. The model of FTAs is also under discussion affected by the shifts in competitiveness and the integration of new production and trade chains.

Internationally, the economic order of magnitude is undergoing important changes. The ascension of China to the second place in terms of GDP and the possibility that the Chinese economy could surpass the US in the next ten to fifteen years dramatizes this change. Other emerging and developing countries

are also part of this change. The participation of different countries and groups in world GDP, trade and investment and their contribution to global growth is also changing with the growing participation of emerging and developing countries. This is also happening in the monetary area where we witness an increased role of the renminbi. In a globalized economy there is no complete decoupling but some decoupling is taking place. There is also a new South-South growth in trade, investment and cooperation that is part of the decoupling. There is a new geography of world trade and investment in the making. The relations between Brazil and China are a good example.

If economic power is becoming more diffuse the same is not happening at the political and military levels. But the changes in the economic level should propagate to the other two levels. On the political front the diffusion of power is occurring although a bit obscured by the consequences of the crisis and the growing difficulties in mastering the necessary consensus to tackle global and regional issues. We are not in a zero-gravity world but international consensus under conditions of decreasing centralization of power is more difficult. The ascending countries are asymmetric powers and their central problems are internal and of a development nature, limiting their ability and willingness to assume greater responsibilities. They lack the power individually to influence the direction of change and their efforts at coordination are lukewarm and at an initial phase. They are essentially revisionist powers but even limited changes in decision making and distribution of power are denied or postponed.

These difficulties at consensus building come at a moment when global issues, such as development, climate change, epidemics and terrorism are pressing for solutions. The BRICS and the Group of Twenty (G-20) are two instances of this problem. The changes at the political level are also pervasive in several regions where the political structures of the past are under strain. This is clearly the case in the Middle East and in Africa. Finally, the military dimension of power is becoming less relevant to solve global issues or to face new security threats like terrorism and cybersecurity. The contradiction between military supremacy and economic stability is also increasing. Institutional structures are also under strain as a consequence of the redefinition of growth and development models and as a result of structural changes. It is not only that the success story of China has promoted the Beijing consensus as an alternative route to development. The malaise of developed countries and their difficulty in arriving at an internal political consensus to face the crisis and its consequences indicates that some of the main tenets of the economic, social and political systems of these countries are again under discussion. The consequences of the crisis are yet to unfold completely.

At the structural level demographic changes are going to have a growing impact at the institutional level for instance in terms of welfare systems and the social consensus underpinning them. The impact of a new generation of technological developments could make many institutional structures obsolete. Defining a new consensus internally and externally to face these problems and to design a new set of institutions, both within each country and internationally, to promote development, democracy and change is a daunting task.

The nature of the problems of the North and the South used to be different and underlined the great North-South divide. Today there are still differences, gaps and cleavages but many of today's problems are shared by developed and developing countries. This is happening internally with the growing inefficiency of political systems, the rise in income concentration and the difficulty to accept a multicultural perspective and at global level with the resistance to power sharing and consensus building and the attempt to see emerging and developing countries as "spoilers" or obstructionists.

As mentioned before regional integration models are also being questioned. The European model is facing a fundamental test posed by the ability to give responses to the crisis, by the concentration of power in Europe, with Germany becoming ever more important, by the decline of the importance of Europe and by the resurgence of nationalism and its debilitating effect on the integration model. The European institutions are under stress and this has repercussions for all integration models. The resurgence of a strategic confrontation with Russia reopened a debate that seemed closed with the end of the Cold War. The Tafta negotiations could prove a major test for the European model and a divisive factor in the EU.

Other simpler models of integration, such as FTA agreements, are also under questioning due to the growth in protectionism fuelled by the crisis, to the currency wars that could intensify and to the new architecture of world trade being shaped through global and regional production and trade chains. Asia and the Pacific are the two dynamic areas where integration initiatives are still being pursued. Some of these have also an important political content and reflect shifts in global power.

We now see a resurgence of interest in regional negotiations and a change in the mode and agenda of some of these negotiations, with the mega-interregional agreements, such as the TPP and the TTIP or Tafta. These negotiations are in themselves extremely complex and they face not only difficulties in the trade area but also political constraints. But, if brought to a successful conclusion, these agreements will change the landscape of trade negotiations and could herald the end of the multilateral trading system as presently structured and centered on the WTO.

We could say that we now have three categories of countries in terms of their trade policy and approach to trade negotiations: *i*) a group of countries that are fully integrated in the global trading system and are looking for further opportunities to enhance, through market opening and harmonization and simplification of their investment and other rules, their participation in world trade; *ii*) a group of important economies that keep on maintaining a recalcitrant attitude towards trade negotiations and that have seen their participation in world trade stagnate (the main representatives of this group would be Brazil and India); *iii*) and a large group of countries that have a marginal participation in the world trading system and which, in terms of numbers, represents the vast majority of the WTO.

2 REBALANCING AND TRADE

One can look at the changes taking place in the world from different perspectives: power shifts, transition from a unipolar to a multipolar world, the resurgence of geopolitics, an age of entropy and chaos, etc. From whatever perspective you may chose a few characteristics of the current period seem to stand out: a rebalancing is taking place at the global, regional and internal levels; the period is perceived as complex and unpredictable, and it is difficult to grasp the nature of the changes taking place and their direction and possible outcome. It is not that lessons from the past have become irrelevant but we are entering into uncharted waters. Under these circumstances, there are the risks of trying to interpret the current changes with the lens of the past or to remain perplexed at what is happening and hide behind generalities.

If we look at the current period from the perspective of rebalancing we can perhaps grasp some of its central features and integrate better the external and internal levels. The first aspect we could note is that we are dealing with multiple rebalancings. To mention a few: there are internal rebalancings, the most notable of which is the reform process in China and the change from a development model based on investment and exports to one led by domestic consumption; there is a global rebalancing with multiple dimensions (political, economic, military) reflected in the reduction of the hegemonic power of the US and the ascension of China and other emerging countries; there is a multilateral rebalancing reflected in the crisis of the multilateral rules and institutions of the XX century and in the search for new forms of organization of the international system.

Rebalancing covers very different situations. We should, at the same time, acknowledge that there are different rebalancings and that they have different logics. For instance, in the economic area internal rebalancing does not lead to external rebalancing. Moving from the broad canvass of the introduction to specifics the present text will deal with the several dimensions of rebalancing in

the trade area. At the outset it is important to note that the concept of rebalancing is more or less formally defined in economic terms. For economists there is an internal rebalancing and an external rebalancing, as explained in two important texts dealing with Asia, and one does not necessarily lead to the other (Fukumoto and Muto, 2011; Dollar, 2013).

In other contexts, the idea of rebalancing is less formally defined. The application of the concept of rebalancing to the geopolitical or military areas as mentioned in this text would run the risk of turning an economic concept into a sort of general term imprecisely used to apply to very different situations. In this sense, rebalancing could give a contribution to understanding some of the changes taking place in the world but the application of the concept outside its original area in economics would require a more formal exploration and formulation of the concept of rebalancing.

This could prove an interesting question. At first glance, rebalancing implies that things are not working well because there is an unbalance in variables or components of a given situation. To quote an often used expression by the former prime minister of China, Wen Jiabao, the Chinese economy was 'unbalanced, uncoordinated and unsustainable'. The imbalances were multiple as for instance between investment and consumption. In the US pivot to Asia there is an imbalance in the strategic and military position of the US and in its expenses between the Atlantic and the Pacific.

Some of the imbalances have to do with the internal evolution of a country and some derive from changes in the world scenario. In all cases, however, two questions arise: the dysfunctionality of the unbalanced situation and the need for correction. The correction would either restore a balance or construct another balance to take account of the evolving situation.

A preliminary view would indicate that rebalancing is a complex operation for it implies establishing a different structure with different combinations. This will confront the logic and interests compatible with the old order and the replacement of this order by a new one, which can successfully address the issues of the perceived imbalances. The process of rebalancing are difficult, high-risk operations and the outcome is uncertain. Rebalancing will generate new problems and not necessarily reestablish a higher and more functional balance.

In line with my diplomatic experience I will concentrate my remarks on the trade issue. The diplomatic perspective implies an awareness of power relations and a bias towards negotiations and strategic thinking. It departs from national interests, and places them in a broader international perspective in search of consensus and negotiation. The internal and external dimensions are central to a diplomatic perspective. In a world where interdependence is growing,

globalization and the integration in the world economy are defining factors, it is important to view the international environment in terms of challenges and opportunities and to be attuned to changes and trends at the international level. Brazil as a continental country has always been self-centered and inward looking. Its embracing of import substitution to promote industrialization has strengthened this orientation. The perception of globalization in terms of threats to national independence and the persistence of views that see the inter-American relationship in opposition to South American autonomy have constrained a more open trade and development trajectory and a foreign policy more attuned to Brazil's internationalist tradition and the growing importance and dimension of the country.

As a regional power and a developing country Brazil, like China and India, must put development first. As the major power in its region and a country that has no territorial issues with its neighbors Brazil does not face significant threats. As part of a region that is not relevant in geopolitical terms, Brazil is far from centers of political and military confrontation and from areas of strategic interest to major powers. Brazil is not an important military power and its hard power is well below what would be required by a country with Brazil's dimensions, borders and coastline. Brazil's foreign policy is largely determined by the projection of the country's economic interests. In political terms, Brazil is a country that has always focused on the peaceful solution of disputes, non-interference on internal matters and non-intervention. Brazil is part of the Western world and shares many of its values but at the same time has other cultural dimensions and a successful experience with multiculturalism. All these characteristics have led to an active diplomacy emphasizing right and not might. Nowhere is this more apparent than in the importance multilateral diplomacy assumes in the context of Brazilian foreign policy.

The priority to multilateralism is a feature of Brazilian trade policy to such an extent that nowadays people are criticizing Brazil's stance for putting its eggs in only one basket. Differently from most countries Brazil's trade negotiations are coordinated by the Foreign Ministry. Brazil's foreign ministry, Itamaraty, has always enjoyed respect inside and outside the country as a State institution built on meritocracy and professionalism. A lot of this reputation lies on the conduct of trade negotiations and the ability to combine offensive and defensive interests. At present, however, with the Doha Round in abeyance and the weakening of the WTO and with the changes taking place in the world there is a growing pressure to review Brazil's trade policy, favoring a more diversified agenda of trade negotiations. Trade is a good topic to develop the issue of rebalancing for a major rebalancing is taking place in trade relations. At the same time, the theory and practice of trade negotiations is undergoing changes and some

of these changes have a geopolitical dimension. Finally, these changes will have an impact on Brazil and the rebalancing underway presents challenges and opportunities for Brazil that merit some consideration.

The following discussion will first examine briefly three trends in global trade, focusing on the rebalancing underway in the world trading system. The next section will deal with trade negotiations concentrating on the shift from the multilateral to the regional and on the changes in the agenda of trade negotiations, with some considerations on the perspective of developing countries. Finally, the text will discuss the impact of these changes on Brazil and make some recommendations as regards Brazilian trade policy, with some reference to other countries, in particular China and India.

3 SOME TRENDS IN THE TRADE FRONT

The 2013 and 2014 WTO World Trade Reports try to look at current trends on the trade front and discuss the situation of developing countries. For the purposes of this paper the discussion could concentrate on three of the trends identified: the redistribution of trade flows and the growing importance of developing countries; the reorganization of the global productive system and the issue of global value chains; and regionalism and the shift of the center of globalization from the Atlantic to the Pacific. This last trend brings to the fore the relationship of geopolitics and trade a topic that gains importance with the transition from a unipolar to a multipolar world.

The first decade of the XXI century witnessed a major geographical redistribution of trade flows involving a significant growth in the participation of developing countries in global GDP and trade and at the same time a reduction in the participation of the Atlantic area in favor of the Pacific region and an increase in regionalism. In fact, these movements started earlier but gained momentum with the ascension of China and other emerging countries and with the impact of the crisis on developed countries.

These movements have two important dimensions: growth in GDP accelerated in the developing world and the rates of growth of developed and developing countries were to a certain extent decoupled; growth in the participation of developing countries in world trade showing that the processes of globalization and integration in the world economy continued in spite of the crisis.

Let us take a closer look at these two trends. The growth in GDP was not equally distributed but was fairly widespread, including all regions. The impact of China was significant and India also experienced a period of high growth. Together with the two Asian giants other countries also increased their participation in world GDP, like Brazil. Africa continued to enjoy rates of growth

well above previous periods. In terms of GDP distribution, this is captured in the projections that the order of magnitude of developed and developing countries will change dramatically so that in the next ten to fifteen years the Group of Seven (G-7) will probably be integrated by a majority of developing countries, with China as the major economy in the world. It is a major change in the distribution of economic power and in the division between the North and the South, leading to the affirmation that we could be witnessing a “great convergence”.

From the point of view of this paper, two questions related to the present trend are especially relevant: the sustainability of the current trend and the possibility of a great convergence. On sustainability, the uncertainty that marks the current moment makes long-term projections hazardous. We are already seeing a dramatic change in growth prospects in some emerging countries and even China is moving to a “new normal” where lower rates of GDP growth will be the rule and quality will replace quantity as the central preoccupation of policy planners.

The Asian Development Bank (ADB) has been, for some time, promoting the idea of an Asian century. The ADB’s projections are hinged on the assumption that Asian countries will be able to implement structural reforms and avoid the “middle income trap”. Central to the success of this reform exercise is China and the implementation of the reforms adopted at the Third Plenum of the CCP in November 2014. On the other side, the US economy is on the way to recovery but Europe and Japan are lagging behind and face major hurdles. Again the last meeting of the G-20 in Turkey at the level of economic authorities raised concerns about the sustainability and extension of the recovery and warned about the dangers of a “secular stagnation”.

This is not the place to embark on a discussion of the world economic prospects. Bearing in mind the concept of rebalancing what could be said is that rebalancing is happening. Part of it is irreversible, especially on the trade front. In a globalized economy there is no complete decoupling of growth rates and no single economy is capable of sustaining for a long period the recovery of the global economy. Trade can contribute but in the absence of internal adjustments it will not do so for long. The continuation of the trend towards rebalancing will depend on internal rebalancing, in particular in major countries, like China, and the adoption of additional measures by all countries to correct external imbalances.

A great convergence as well as a great rebalancing would require a new structure of multilateral rules and institutions premised on the idea of a balanced redistribution of world power and on supporting and managing multipolarity and globalization. The current transition does not indicate that such a new consensus is emerging. To the contrary, the signs are that resistance to change is growing. In the trade area, we could be witnessing, with the collapse of the Doha Round and

the promotion of the mega-agreements, an attempt at trying to revert the gains of developing and emerging countries and at de-constructing the multilateral trading system. In the light of these considerations, it seems premature to speak of a great convergence or of a great rebalancing.

Moving to trade relations we see that again there is concentration and diversification in the trade performance of developing countries. China again is in a different category but several other countries increased their participation in world exports and imports. Part of this was a consequence of the China effect, especially after the crisis. The China effect has five major components: the rate of growth of GDP; the dimension of the Chinese economy; the degree of openness with foreign trade representing a large proportion of GDP; the reduction of the trade surplus and the growth of imports; the demand for commodities which had a major impact on developing countries whose exports continue to be mostly of primary products; and, finally, the growth in Chinese investments abroad. But the geographical distribution of trade also changed with a continuous growth of South-South trade.

The China effect had a powerful counter-cyclical effect, especially in relation to developing countries. Exports of developing countries are still concentrated on commodities and gigantic Chinese demand for energy, minerals, agricultural and forestry products due to the acceleration of infrastructure projects in response to the crisis and to the limits of Chinese agriculture to respond to growing demand led to the super-cycle in commodity prices. This is now gone and the decline in commodity prices explains part of the decline in growth rates in developing countries and in their participation in world trade.

The internal and external rebalancings of the Chinese economy were postponed in favor of short-term growth but they are now unavoidable to sustain the long term prospects of the Chinese economy. Whether they will be achieved is another matter. In a recent study on the implications of the reforms in China for the Brazilian economy the World Bank concludes that the reforms underway in China could generate new sources of dynamism for Brazil and for the diversification of Brazilian exports. The blueprint of the reforms involve majors changes in the growth model and a further deepening of the market oriented reforms and the opening-up of the economy. Brazil will also have to reform to rebalance and open-up its economy to benefit from the changes in China.

There are signs that rebalancing is taking place in world trade and investment, part of it forced by the crisis and part motivated by the need to abandon past models of growth. But a great rebalancing will require a combination of internal reforms and a redesign of the world trade and financial systems. Part of the reform will be a consequence of the functioning of economic variables that will lead to

corrections in growth rates, trade balances and exchange rates. Part of it will be the result of internal reforms, in particular in China, to correct its trade surplus and to reform its financial and exchange rate systems. Other surplus countries like Germany will also have to reform and major emerging market economies like Brazil and India will have to design and execute a new generation of economic reforms where rebalancing and greater opening and integration in the world economy will play a role. But a great rebalancing would require a new consensus on the workings of the monetary, financial and trade regimes and on the institutions that are the pillars of these regimes.

The issue of global value chains will be dealt with later on in the text, in particular, in the sections on the mega-agreements and on Brazilian trade policy. For a number of years now we have been witnessing a growing convergence on the need to rebalance trade negotiations making GVCs a central element of the liberalization process. This reflects changes in the main trading partners, especially the US, as regards the strategic importance of trade negotiation and the move to a plurilateral and regional approach, in preference to a multilateral approach to trade negotiations. It also reflects what we could designate as a last phase of the globalization process with the level playing field moving from barriers at the border to internal regulations and from trade to investment.

One other aspect appears important in terms of the redesign of the world trading system in a more multipolar world: the relationship between multilateralism and regionalism and linked to the decline of the Atlantic and the rise of the Pacific. This has multiple dimensions but what concerns us here is the issue of the economic and trade dimension of this shift. This is a process which has been going on for a few decades since the recovery of Japan and the rise of the NICs. We can speak of this period as the first phase of the geographical rebalancing from the Atlantic to the Pacific. The current period however is marked by the ascension of China and to a lesser extent India.

Regionalism has always been present as an important element in trade creation and trade diversion. Furthermore, regionalism respond to geopolitical elements in terms of integration of contiguous areas and the consolidation of trade-integrated countries in a single space. What is at issue here is whether we are witnessing an irreversible trend towards regionalism and the decreasing importance of multilateralism. What is new in regionalism is the fact that trade is moving to integration along the lines of global value chains and this has an important regional dimension.

The other issue that is growing in importance is the diminishing prospect of deep integration and the success of more pragmatic approaches to integration along the lines of a second and third generation FTAs. A comparison between

Mercosul and Asean would be instructive. The other element in this equation is the future of the EU where the incentives to integration were profound and responded to geopolitical and strategic reasons difficult to be replicated in other areas of the world.

Finally, we must consider the geopolitical dimension of regionalism in a more multipolar world and the possibility of organizing trade along the lines of conflicting blocs led by regional powers and regional factories. Elements of this trend are already present in all regions but especially in Asia.

The competition between multilateralism and regionalism has always been a feature of the trading system. Article XXIV of the GATT tried to regulate the relationship between the two systems but was never very successful in doing so and its provisions were frequently by-passed or ignored. The attempts at reform of the disciplines have always faced the difficulty of the interest in preserving a regional dimension and the ability to derogate from GATT rules. It is not surprising that under these circumstances the enforcement of Article XXIV and the attempts at strengthening it have not shown much progress.

The competition between the two approaches to international relations is of course not limited to trade and regionalism can be seen as a sort of building bloc to a multilateral system, like in the relationship between the UN and regional organizations, like the OAS. It can also fill the gaps of the multilateral approach in areas where regionalism is the only available alternative, like in military and security cooperation during the Cold War with the competing security arrangements. It can compete with the multilateral approach like in trade, diverting trade flows and guaranteeing preferential access and covering areas not subject to multilateral disciplines in deep integration schemes.

This sometimes harmonious and complementary relationship but often a competing and even conflicting one is not new. In fact, the possibility of a world organized around trade blocs competing for supremacy and enlargement has been exhaustively discussed. Fortress Europe was a popular expression in the early days of European integration. The advances of globalization was a powerful deterrent of regionalism. The presence of a hegemonic power is also a major force behind non-discrimination and the MFN approach to trade liberalization.

The supremacy of the West created an amalgam for the system both in terms of the market opening process, which focused on areas where trade creation was beneficial to the dominant participants in trade negotiations and in terms of the central disciplines and the underlying classical theory of trade.

What we are seeing now is the weakening of all those forces that worked in favor of the multilateral approach to trade negotiations. In a more multipolar

world centrifugal forces tend to assert themselves and regional powers dispute with the hegemon the supremacy in their regions. Trade is no exception. To the contrary trade is becoming a central element in this dispute as shown by the mega-agreements under negotiation. Regionalism has not gained the upper hand but is now more powerful.

4 THE UNIVERSE OF TRADE NEGOTIATION

We can now turn to trade negotiations and try to establish an interrelationship between the trends discussed above and the world of trade negotiations. The purpose of this discussion will be to highlight some of the consequences of the changes in the negotiation agenda in terms of multilateral, regional and bilateral negotiations, and in terms of the new topics being pursued. This not only involves a trend that started decades ago to expand the concept of trade, but also could lead to completely different negotiations based on value added and global value chains. In doing so special attention will be devoted to the future of the WTO and the Doha Round, to the mega-agreements and their geopolitical dimension and to the replies that these negotiations are promoting in the main excluded country China. The new Chinese focus on integrating infrastructure, not only in East Asia but across the whole continent and beyond with Europe and even North and South America, as exemplified by the two silk road projects and by initiatives in Africa and Latin America indicate that the new Chinese trade diplomacy is prepared to contest the US pivot to Asia and its sister dimension the Transatlantic initiative. The success of the new Asian Infrastructure Investment Bank (AIIB) reflects the new assertiveness and influence of China.

The WTO is now facing a clear challenge to its role as the pillar of the multilateral trading system. The challenge in fact is to multilateralism as the best way to promote trade liberalization and the integration of developing countries in the world economy. In an article published in 2003 in *Foreign Affairs* with the title *A high-risk trade policy* Bernard Gordon discusses the changes in the US trade policy introduced by Robert Zoellick and exemplified by his belief that:

a strategy of trade liberalization on multiple fronts – globally, regionally, and bilaterally – enhances our leverage and best promotes open markets. As Europeans have pointed out to me, it took the completion of Nafta [North American Free Trade Agreement] and the first Apec [Asia-Pacific Economic Cooperation] Summit in 1993-94 to persuade the EU to close out the Uruguay Round. I favor a “competition in liberalization” with the U.S. at the center of the network (Gordon, 2003).

Gordon (2003) goes on to criticize that policy and to defend the multilateral trading system and the US stake in it by leading an effort to conclude the Doha Round. It is interesting to note that the main argument of the article as regards the importance of the MTS for the US has to do with the balanced

geographical distribution of US trade, an argument that was frequently used by Brazil to defend the priority of multilateral trade negotiations. For the purpose of this text two issues highlighted by Gordon are important: the contradiction between multilateralism and regionalism and the competition in terms of trade liberalization and trade links once the process of bilateral and regional trade negotiations gains momentum.

Between 2003, when Gordon wrote his article, and now, the changes have been significant with the US participation in world GDP and trade declining and with the rise of China now the world's largest exporter and the second economy in the world. China's size has changed the economic and trade scenario of East Asia and now almost every country in the region has in China its main trading partner. These figures underline the importance of the trade dimension of the US pivot to Asia. What is less clear is whether it is still possible following a major crisis in the Chinese economy for the US to recover its economic and trade position in Asia and whether the Asian countries are prepared to opt for the US instead of China.

The success of the MTS in guaranteeing the continuous expansion of world trade and promoting globalization and the integration of countries in the world trading system would suggest that the advantages of multilateralism are clear. The system has also evolved since 1948 and the transformation of the GATT into the WTO is simply the major step into a continuous process of change. But during its almost seventy years of history the MTS has failed to address satisfactorily certain major questions relating to the balance of rights and obligations between major trading partners, originally only developed countries, whose exports were concentrated on manufactured goods and on services, and countries that had a small participation in world trade and whose exports were basically of commodities, the developing countries.

The rebalancing in GDP growth and trade relations underway has brought to the fore of these issues. The formula that development and agriculture are at the center of the Doha Round, so frequently used by the G-20, is a concise indication of the change in the balance of forces in the MTS. The question of the distribution of the benefits of free trade and of the conduct and management of trade negotiations in the WTO has proven a difficult but unavoidable hurdle to overcome. These issues still retain a North-South dimension as shown in the failure of the Cancun Ministerial and in the ability of developing countries to influence decisively the pace, agenda and decision making process of the negotiations.

But this dimension is changing in light of two developments: the growth of the anti-globalization movement in the developed countries and the increasing importance of the so-called emerging market economies. For some time now

we are seeing that some of the harshest critics of globalization and free trade are in the North and not in the South. There is a growing sense that these two forces now work against the interests of the working classes and in favor of income concentration and inequality. This has been gaining support and status with distinguished academics like Dani Rodrik and Josef Stiglitz attacking the imperfections of the system and their theoretical underpinnings. Stiglitz, in an article where he criticizes the TTP negotiations states that:

Today, the purpose of trade agreements is different. Tariffs around the world are already low. The focus has shifted to “nontariff barriers”, and the most important of these – for the corporate interests pushing agreements – are regulations. (...) But most of the regulations, even if they are imperfect, are there for a reason: to protect workers, consumers, the economy and the environment. (...) One could, of course, get regulatory harmonization by strengthening regulations to the highest standards everywhere. But when corporations call for harmonization, what they really mean is a race to the bottom (Stiglitz, 2014).

If we look at the relationship between trade and development, a central feature of the reform movement led by the Group of Seventy Seven (G-77) we see that since 1964 and the I Unctad this relationship has evolved and the point of view of the North-South divide and the structuring of debates, negotiations and rules on the basis of the distinction between developed and developing countries has lost ground and is today an element of secondary importance in trade negotiations. Even at the earlier stages of the debate three other ideas were present that moved the debate in different directions: segmentation, differentiation and graduation. To these we should add the supremacy of liberal economics and the international financial system. The demise of the Cold War and the end of the Washington consensus launched the XXI century and the prospects of a more multipolar world and of a more open debate on the mode of development. There is a need for reexamining the issue of development as a structuring category in the light of the trends towards multipolarity, differentiation and graduation and the new economic agenda. How Brazil, China and India position themselves in this debate as major emerging countries will be central to a new perspective on the issue of development.

5 THE MTS AND THE DOHA ROUND

The MTS finds itself at a cross-roads: how to inject dynamism into its negotiating agenda and revive and conclude the Doha Round in the midst of a recession and how to reform itself in light of the new developments in the global trading system. At the same time the MTS faces an increasing competition from bilateral and regional trade arrangements. This is not new but now the system and its pillar are weakened, the negotiating agenda is changing and some of the negotiating

initiatives underway focus on this changing agenda and encompass a large proportion of world trade. These initiatives could thus be seen as the basis of a different structure for world trade and of a different rules based system.

The US leadership in trade negotiations was traditionally associated with a preference for a multilateral approach. The EU and Japan under the present circumstances are not in a position to lead, still groping with the crisis and having to make concessions in the area where they have their greatest defensive interests, agriculture. The developing countries are divided along the lines mentioned before and anyway, in trade negotiations always tend to split along the lines of their specific interests. Beyond that they are now facing to a greater extent the impact of the recession and of the reduction in China's rate of growth and have to face the challenge of a new generation of reform under difficult conditions.

Among the emerging market economies China, as the biggest winner from globalization, could exert some leadership in favor of the MTS and trade liberalization for its reforms require a further opening up and its economy is in better shape. But the Chinese have their hands full trying to preserve their regional space and to counter the US initiatives. China also treads carefully on the multilateral front.

Brazil and India are in a much less favorable position to make contributions to a conclusion of the Doha Round and to the redesign of the MTS. Brazil has a very competitive agriculture but its industry and services sector will have to be restructured to gain competitiveness. India also faces difficulties with a protected agriculture, an industry that needs modernization and a more competitive services sector. Both countries have always been committed to the MTS and during the Doha Round assumed positions of leadership and now they could try to tie in their reform processes with their contribution in trade negotiations. They are perhaps the countries that have more to loose from a new set of trade rules and from a new generation of trade agreements from which they are excluded. The options are being reduced but they do not look ready to engage and to lead as shown by India's move blocking the Bali agreement and by Brazil's lack of initiatives in the trade front. The BRICS is now in a difficult position to lead and in trade matters has not been very active.

The MTS now faces major challenges and lacks leadership in spite of the efforts of the director-general Roberto Azevedo. The conclusion of the Doha Round continues to elude trade negotiators. The negotiating agenda of the WTO is being overtaken by current developments. A reform process to prepare the WTO for the XXI century seems even more difficult to envisage. If the mega-agreements succeed, and that is a big if, the WTO would face a huge barrier in integrating their results, even if more limited than initially envisaged, into the

MTS. Under this scenario, the MTS could become a sort of minimum common denominator of rules to be applied to a diminishing proportion of world trade. In this context, there is a need for reviving the Doha Round and reforming the WTO and Brazil should engage together with other emerging countries, like China and India, to provide leadership in Geneva.

The current difficulties indicate that it would be difficult to conclude the Round with a high level of ambition, something that has been eluding trade negotiators for a decade and that has been unattainable under better economic conditions. Abandon the Round and concentrate on a vision for the future would leave an open wound. A consensus on a reform of the WTO necessary to give legitimacy to the reforms would become even more difficult to attain and the WTO could be engulfed in a divisive and endless negotiation which would weaken it further. It is of course possible to look at the two issues at the same time and the last speeches by the director-general seem to indicate that he is contemplating this approach. This approach, however, could lead to further complexities by engendering a new equilibrium in the agenda of the Round and reopening the Doha Development Agenda (DDA). We should also bear in mind that the reforms will take time to mature and negotiate and their discussion would probably gain from a better economic environment. It is always possible to look at different combinations and approaches but I would prefer to make a last attempt at concluding the Round before engaging in the reform process. Brazil has strategic interests in both topics: the conclusion of the Round and the future of the WTO.

The conclusion of the Round is a first step on the success of which the new agenda depends. Brazil as a major exporter of agricultural products and a country that has very low levels of domestic subsidies and does not use export subsidies the Round has from the beginning represented the opportunity to fully integrate agriculture into the disciplines of the MTS limiting the abuses of the great subsidizers. The negotiations of these disciplines can only be done at the multilateral level because it requires a complex balance between a large number of players, in particular the US and the EU, and an intricate technical approach to the different forms of domestic support and a balance between reductions in subsidy levels and market opening. It also demands a complex balance between developed and developing countries involving food security in agriculture and concessions in non-agriculture market access (Nama) and services. The difficulties surrounding these topics made it impossible to arrive at a balance that could lead to the conclusion of the Doha Round, and more recently almost led to the failure of the Bali Ministerial and to the collapse of the Bali package.

The agreement finally reached to sort out these last impasses aims at agreeing on an understanding on public food stocks by the end of 2015. In view of the centrality of food security to many countries in terms either of their offensive or defensive interests, this target date of the end of 2015 could provide the opportunity to build a final package for the Round. To agree on food security you would need to involve other important topics for developed and developing countries and to tackle the central balance in the DDA between agriculture and Nama. Of course countries could simply agree to create another deadline as they have been doing for years. But under the circumstances this could be a strategic mistake. Countries do not assemble in Geneva to decree the collapse of a trade round but this could come as the result of omission and a tacit consensus to pursue negotiations elsewhere.

Concluding the Round would require a common effort on the part of all members of the WTO to engage, negotiate in earnest and make concessions with a view to arrive at a possible package that would not be ideal or the package that could have been achieved some years ago but that would be balanced and acceptable to all. The main responsibility to build such an outcome lies with the major trading partners and the emerging developing countries. Such a result can only be achieved if the main players still value the multilateral trading system and the WTO.

And that is the central question. Reading an article by the United States trade representative (USTR) Michael Froman (2014) one gets the impression that the US has not only reduced the importance of the multilateral negotiations in its trade agenda but has in fact eliminated the Doha Round and the WTO from its priorities. The other dimension that appears clearly in the article is the link between trade and strategic considerations. As stated in the text:

The Obama administration's three strategic trade objectives-establishing and enforcing rules of the road, strengthening partnerships, and promoting development-all serve the greater goal of revitalizing the international economic architecture. Establishing and enforcing rules of the road will ensure that tomorrow's global trading system is consistent with American values and interests. Strengthening the United States' partnerships and alliances with other countries will protect that system and lay the foundation for pursuing broader mutual interests. Promoting broad-based, inclusive development will expand that system so that its benefits are both greater and more widely shared.

The economic foundation of the Obama administration's trade agenda is sound, and the strategic stakes of following through with it could not be higher. Given the current constraints on fiscal and monetary policies, there is no better source of growth than trade. As tensions rise in Asia and on the periphery of Europe, the strategic merits of the TTP and TTIP become even clearer (Froman, 2014, p. 5).

If the US negotiating objectives together with the objectives of its strategic partners in the mega-agreements is to build a new architecture and define a new negotiating agenda centered on plurilateral negotiations with a view to multilateralize them after the conclusion of the negotiations then the conclusion of the Doha Round would become meaningless or achieved at the expense of the negotiating objectives of the other players. That would be a result difficult to justify for it would mean that the cost of saving the Round and maintaining the multilateral trading system would lie only with the non-participants in the mega-agreements.

6 THE MEGA-AGREEMENTS

The mega-agreements under negotiation could define the new standards in trade rules and establish their own dispute settlement mechanisms. The secrecy that has marked these negotiations, especially in the case of the TTP, contrasts with the multilateral process under the WTO and raises questions regarding their objectives. They certainly respond to geopolitical concerns and are part of a US global strategy where the pivot to Asia occupies a central place as again reaffirmed in The New National Security Strategy just published (White House, 2015). These changes imply that the mega-agreements have an importance that transcends the trade dimension and could represent the final step in the change in the US trade negotiating strategy away from the multilateral to the regional. Let us take a closer look at the mega-agreements through the lens of some horizontal issues: symmetry, agenda, global value chains, societal parameters, transparency and geopolitical orientation. In this context, the issues of the relation between multilateralism and regionalism and between the Atlantic and the Pacific will also come up.

Symmetry is an issue in any negotiation. In trade negotiations the dimensions of the size of the market and the degree of openness of the economy are especially relevant. Symmetry explains the preference for multilateral negotiations as a way to better balance the power of the major trading partners through coalitions.

In the mega-agreements the issue of symmetry is present, in particular, in the TTP and for the countries that do not have agreements with the US. The entrance of Japan in the negotiations established a better balance and a more open and complex negotiating agenda in view of the size of the Japanese economy, its presence in Asian markets and the divergences between Japan and the US on important topics like agriculture and the automotive industry.

The TTIP looks like a more balanced negotiation. However, even in an agreement between the two major economies in the world the issue of lack of symmetry is present. As pointed out by Pierre Defraigne (2014), “the asymmetry

of the negotiations between two very different political and economic powers, an iron America and a clay Europe, stems from their respective features and policy orientations.” And:

A TTIP success, far from being warranted, would definitely further skew Europe’s already asymmetric partnership with America. Adding US economic dominance to strategic leadership would dilute Europe’s unifying dream. This would definitely turn the relative economic decline of Europe, which is a statistical fact, into decadence which is a political choice (Defraigne, 2014, p. 3).

The agenda for the negotiations reflects the intention of going beyond the traditional barriers to trade and encompassing the area of internal policies with a view to establish a level playing field for the operation of global value chains. In the case of TTIP it is projected that 80% of the gains in terms of GDP growth and increase in trade would come from liberalizing measures in the regulation area. More traditional issues of market access are important in the TTP but even there the importance of regulatory measures is central. These agreements being sold as XXI century agreements for their agendas would indicate the new priorities in terms of trade negotiations. In the case of the TTIP the emphasis has been on the ability of the agreement to set global rules and standards making the two participants standard makers and not standard takers.

Another topic which is central in the negotiations is the treatment of investment an indispensable component in the establishment and operation of GVCs. Linked to the treatment of foreign investment is the issue of the establishment of a new dispute settlement mechanism with the participation of private investors in the disputes. The centrality of regulation and investment in the mega-agreements has been the source of great concern on the part of social movements and opponents of globalization. But even a seasoned trade negotiator like Pierre Defraigne defends that:

Behind-the-border regulations are substantially different from tariffs. They have an impact on trade, but their main purpose is not to contain imports but to protect health, the environment and societal values. This includes domestic production as well as imports. On the one hand, they reflect collective preferences, on the other they reflect technical differences which are sometimes used as protectionist tricks. In the US and the EU collective preferences differ considerably on matters such as the precautionary principle illustrated by the beef hormone dispute, chlorine chicken, GMOs, data privacy protection or by the preference for ex-ante regulation over ex-post litigation and class action. In such cases, the harmonization of rules and standards is no longer just a trade negotiation. It amounts to a true legislative process. TTIP focuses on regulatory convergence which implies harmonization or mutual recognition (Defraigne, 2014, p. 4).

The ECFR conducted a study of the TTIP (Dullien, Garcia and Janning, 2015) and concluded that the agreement would be in the interest of the EU. Even this favorable analysis of the negotiations acknowledges the growing resistance to some of the provisions and suggests the removal from the negotiations of the most contentious issues like investment and the new dispute settlement mechanism. The document states that:

Given public opposition, the EU should make a fresh start in winning support for TTIP. It should seek to quickly reach a narrow agreement that focuses on eliminating remaining tariffs rather than non-tariff barriers. It should seek to make TTIP a “living agreement” scheme to gradually harmonize norms and standards and enable burden-sharing between regulatory bodies in the future. Investor-state dispute resolution should not apply to the transatlantic marketplace (Dullien, Garcia and Janning, 2015, p. 1).

This is a good point to focus on some of the major concerns raised by these negotiations: the issues of societal parameters and transparency. As trade negotiations move from liberalizing barriers at the border and other product specific restrictions to domestic rules and regulations they tend to encompass broader aspects that have to deal with different values in different societies. This expansion of the concept of trade and trade negotiations has been underway for some time. To a certain extent, this movement is behind some of the difficulties faced by the multilateral trading system. Now we are entering a new phase in this expansion with the attempt at harmonizing and simplifying regulations and with the inclusion of investment policies and the treatment of investors. This would be consistent with the progress in globalization and with the expansion of GVCs. This explains the resistance to those changes under the banner of preservation of national values and preferences and of avoiding a “race to the bottom”.

Linked to the issue of societal parameters is the question of transparency. Doubts have been persistently raised about the lack of transparency in these negotiations. The suspicion is clearly that this lack of transparency finds its reason in the nature of the issues under discussion. One example is the question of GMOs and the profound differences between the European and American societies as regards the treatment of GMOs.

As indicated, the element that gives consistency to the agendas of the negotiations is the concept of GVCs. If the main objective of these negotiations is to rebalance current trade patterns and contain the growth of China and to reassert the strategic economic importance of the North Atlantic area, the concept of GVCs is a useful instrument to do so. This rebalancing has two dimensions: the repositioning of the US in the Pacific area with the strengthening of Japan as its central ally in the region and the containment of China; the Atlantic with the recovery of the North Atlantic economic vitality by forging a more solid

economic and trade link between the two sides of the ocean. Nato would have in the Tafta an economic arm.

If we consider the three world factories, US, Germany and Japan, the hubs of the GVCs, the two agreements would reestablish the importance of the Atlantic area at the center of globalization as the global standard maker and in the Pacific counter the rise of factory China and its growing trade and investment links in East Asia with the reemergence of factory Japan.

We can now turn to the geopolitical orientation of the mega-agreements. As the discussion indicates, there are two major factors in this dimension: the exclusion of China and the use of the TTP as an instrument of containment and as an economic arm of the US pivot to the Pacific and the parallel movement to recover the Atlantic dimension and to give new economic impetus to the West through TTIP. In the words of Charles A. Kupchan in his text on *TTIP's geopolitical implications*,

TTIP would thus constitute an important step forward in renewing the West's political vitality and enabling it to continue serving as the anchor of liberal democracy amid a world in change. So too would the West's recovery refurbish the allure of the Western model, of particular importance as emerging powers chart their courses in the years ahead. (...) TTIP thus has the potential to consolidate the political bond between the United States and Europe at a time when security ties may be loosening. However, as the next section indicates, it would be illusory and perhaps dangerous to see increased commerce as a substitute for strategic partnership (Kupchan, 2014, p. 4).

This concern with the geopolitical use of trade negotiations is again not new. The launching of the FTAA negotiations raised questions regarding the true nature of the initiative and these questions finally led to the collapse of the negotiations. In the TTP, the attempt by the US to use balance of power schemes to contain China and create difficulties in its neighborhood is provoking counter movements by China and a rise in tension in the area. The rise of China and China's behavior as regards territorial disputes is also a major contributor to the tensions. In the TTIP the issue is whether it makes sense for the EU to join in such a game. In both instances, the question expressed in simple terms is if we are dealing with an unavoidable option between the US and China in a dispute for hegemony or if we can envisage accommodation and what the Chinese like to call a new relationship between great powers and a win-win situation. The Asian countries do not want to be placed in the position of having to opt between the US and China. In Europe, the reply could be similar and Defraigne (2014) suggests as a solution the inclusion of China in the negotiations:

The EU and the US should be more careful about uniting against China. Their alliance will be perceived as two declining hegemonic powers attempting to dictate their rule to emerging powers. Instead of engaging in the construction of a new

international economic order, TTIP is trying to prolong the ancient one. There is still time to stop the hazardous process of TTIP or rather to let it sink into the moving sands of popular contestation. An early harvest would serve as a face-saving device. A “plurilateralisation” of TTIP including China would however be the best possible outcome (Defraigne, 2014, p. 16).

7 BRAZILIAN TRADE POLICY AND THE CHANGING INTERNATIONAL CONTEXT

Brazil was not well prepared for the changes taking place in the world. In an exercise of policy planning in Itamaraty in 1993 which my friend Ambassador Gelson Fonseca and I coordinated to look at the changes taking place in the world and how should Brazil react to them hardly any space was devoted to China. The document entitled *Reflections on Brazilian foreign policy* identified the trend towards multipolarity in the post-Cold War scene and the need for a major “aggiornamento” of our foreign policy. Three scenarios were considered; progress in globalization, the basic scenario, regionalization and fragmentation. But little attention was paid to what was happening at the other side of the world and what impact these changes would have on Brazil. The Western and Atlantic dimensions still concentrated our attention. It is interesting to mention that in a passage the document suggested the growing importance of a group of continental countries, Brazil, China, India and Russia, and identified their common interests as regards a reform of the world order which did not fully take into account their weight and interests. This created the basis for a growing coordination among those countries and to consider a more systematic joint political articulation between the four countries.

On the trade front, the attention continued to be focused on the multilateral area, regional integration centered on Mercosur and South America, the Western Hemisphere, with the FTAA, and the Atlantic, with Europe and Africa. The Pacific was hardly mentioned and in Asia the attentions were concentrated on Japan and India.

Recently, Itamaraty launched a similar exercise in a somewhat different format entitled *Dialogues on foreign policy* and I was invited to two round tables: one on Asia and one on trade policy. On Asia the debate was dominated by China and its impact on Brazil. In 2000, no one envisaged the possibility of China becoming Brazil’s first trading partner and a major investor in our country and in Latin America. Now the opportunities and challenges of the growing relationship with China were at the center of the debate. But the discussion still revealed a lack of expertise on Asia and China and the fact that the attention devoted to this area in Brazil is at its early days a fact that was pointed out to me by David Shambaugh when we met in Beijing in 2009 to discuss the growing presence of China in Latin America. In spite of the rise

of China and its growing influence abroad and the possibility that the Pacific will displace the Atlantic as the center of globalization we still have not fully recognized the importance of these developments for Brazil.

The debate on trade was the most contentious and lively during the month long series of seminars. On one side, were the proponents of a major revision of Brazilian trade policy and negotiating agenda. On the other, the defenders of the *status quo* and the priorities of the domestic market, Mercosur and regional integration and the WTO. This group was essentially concerned with what it saw as the defense of Brazil's internal market and the dangers of integration in the world economy.

As a result of my intervention in the debate, a few basic ideas should be highlighted: Brazil's trade policy is now outdated and dysfunctional and in need of a complete overhaul; this reform should be done in the context of a revision of Brazil's macroeconomic policy together with some sectoral policies in particular exchange rate and industrial policies; this reform should be accompanied by major efforts at simplifying bureaucratic procedures and reducing barriers to trade and investment.

I also propose a major reorientation of our trade negotiating strategy but I warn that negotiations cannot lead the reform process. In the absence of policy changes internally that would shift the focus from a defensive to a more offensive approach it would be futile to develop an ambitious negotiating agenda. The current trade policy does not favor engagement in trade negotiations with its bias towards the protection of the internal market and the use of instruments that date from the heydays of the import substitution period and with its defense of Mercosur margins of preference a sub-product of a vision of Mercosur as a sort of bulwark against Hemispheric integration led by the US.

This double conditioning of our trade negotiating strategy is part of a negative view of globalization and of the role trade liberalization plays in growth and development. It also justifies the preference for the multilateral approach for in the WTO the defensive interests, the first priority, can be better safeguarded. These positions have bred along the years a vast array of interests which support a negotiating agenda focusing on the WTO and MERCOSUR and against negotiations with major trading partners. More recently they have found arguments to defend their approach in the so-called cost Brazil, a long list of problems that conspire against Brazil's competitiveness, and in the deterioration of the industrial sector.

To these policy orientations we must also add as an obstacle to a successful engagement Brazil's competitiveness in the agricultural sector and the fall in productivity in the manufacturing sector. In the past few decades Brazil became

a major producer and exporter of agricultural products and a close competitor with the US. As a result of these developments the agricultural sector is now a champion for trade liberalization and the elimination of all forms of trade distorting support to agriculture and a proponent of an offensive trade negotiating agenda. A balanced result in a trade negotiation for Brazil would require market opening in agriculture and protection to industrial products. This is not a very favorable combination to produce successful trade negotiations.

More recently as a result of the deterioration in our trade and current account balances we are witnessing a renewed interest in trade policy reform and a larger degree of support for change in the business sector, including the industrial sector. This is not the best moment to embark on an exercise of reform and opening-up and trade policy is, at best, a subsidiary policy. Internally, the economy is entering a recession and the external account is deteriorating. In the world, the recovery is still uncertain and the negotiating agenda facing difficulties and involving other countries and topics that are not a priority for Brazil. In the region, Mercosur is dysfunctional and the few initiatives in trade negotiation exclude Brazil and Mercosur. The center of globalization is moving to the Pacific and our remaining Atlantic initiatives, the negotiation with the EU and cooperation with Africa are at best stagnant. The EU-Mercosur agreement after more than ten years of a stop and go negotiating process is now practically abandoned a victim of diminishing interest in the EU and of the paralysis of Mercosur. In Africa, the growing presence of China coupled with Brazil's economic difficulties and a retrenchment in the foreign policy area has led to a decreasing Brazilian presence in Africa.

On the other hand, if the moment is not the more propitious for implementing new policies it is one of those moments when there is a growing recognition that past policies have failed, that the need to explore new routes is unavoidable and the country can cease the opportunity to embark on a new course. This is especially true of the trade front where the negative results in our exports of manufactures combined with the end of the commodities super-cycle have finally led to a growing recognition that there is no room for complacency. The devaluation of the real gives some breathing space to the industrial sector and offers the opportunity to explore the feasibility of a trade-off between reduction of barriers to trade and currency devaluation as proposed by Edmar Bacha (2014). In this article Bacha departing from the limited openness of the Brazilian economy and concluding that the prospects for resuming growth requires a significant increase in the participation of exports in GDP proposes program for the integration of the Brazilian economy in the world economy. As the central pillar of this program he suggests the replacement of barriers to trade by a devalued exchange rate. Other suggestions have recently appeared and all seem to share the concern with the need for Brazil to "reform and open-up" its trade policy.

As this paper is centered on the external dimension and as most of my diplomatic experience is in the area of trade negotiations I would now make some comments and recommendations regarding Brazil's trade negotiating strategy, preceded by a brief detour about the development dimension of our foreign trade policy.

As indicated before the vision of a world divided between the North and the South has been losing its capacity to mobilize and to structure negotiations. In the trade area, this conception from the initial days faced difficulties, as mentioned. But now we are facing a different problem. The emerging countries or market economies is finally a combination of differentiation and graduation that seems to encounter support in the economic evolution of a group of developing countries and acceptance among the countries that are graduated. China is now the second largest economy in the world and the first exporter but a developing country. Russia is an emerging market economy but not a developing country. Brazil, India and others are now labeled as emerging countries and accept that they have to assume more responsibilities. And that is the crux of the matter: burden sharing. We are witnessing a change that creates an upper tier of developing countries as we had in the beginning seen the creation of a lower tier with the LDCs.

Development remains a central global issue but for purposes of negotiation the vision of the world as divided between the North and the South has lost its ability to mobilize and to lead to reform. Dialogue replaced confrontation, the liberal onslaught of the last decades of the XX century together with the failure of many heterodox experiments and the fact that very few countries graduated transformed many of the earlier certainties into questions. The impact of globalization and the success of countries like China that embraced globalization changed the view of world trade relations. We have to rethink the whole process of how to conduct trade negotiations in the WTO and of how to integrate the development dimension into trade rules. Special and differential treatment has to give place to sustainable development, the impact of trade on income distribution and inequality inside countries and between countries has to be taken on board.

Brazil remains a developing country and as such development issues have a major bearing on its stance in domestic and external questions. What this paper suggests is that the development agenda must be reexamined with a view to adapt it to internal developments in Brazil and in other developing countries that are now emerging countries and to developments in the world with the first steps towards multipolarity, the rise of China and the new economic geography of South-South trade and cooperation.

These changes should lead to a more pragmatic economic diplomacy accepting globalization as a fact of life and developing a greater integration of

Brazil in the world economy. One part of this reform would be to broaden the trade negotiating agenda in terms of a more open consideration of new topics and in relation to the negotiating. In this case Brazil should diversify its menu of negotiations, preserving the importance of the multilateral approach but exploring other possibilities at the regional, plurilateral and bilateral levels. These changes should also recognize that Brazil would be prepared to assume greater responsibilities. We could now take a look at each of the different negotiating scenarios with a view to identifying new paths for Brazil's trade agenda.

8 THE MTS AND THE WTO

At the present moment, the Doha Round faces three alternatives: failure by default, a protracted negotiation aiming at an ambitious result for which clearly there is no appetite which would probably lead after some more lost time to the first alternative; a last attempt at concluding the Round by the end of 2015 with a feasible and balanced package. Brazil should favor this last alternative for it has strategic interests at stake in the DDA and in the future of the WTO. If that is the case Brazil should reengage in Geneva and in the capitals of the major trading partners and exert its leadership to conclude the Doha Round. In this context, mobilizing the G-20 and strengthen the coordination with China and India should be the priorities.

For Brazil the conclusion of the Round offers also the opportunity to review its trade policy and to introduce needed internal changes that could be presented as contributions to the Round and also to broaden its negotiating agenda. With the fall in commodity prices some of the distorting effects of subsidies programs, mostly in the US, are becoming more apparent. The negotiations in the WTO offer an opportunity to address these questions and to agree on changes that could be implemented gradually. On the other hand, some of Brazil's programs in the industrial area are under scrutiny and the Nama negotiations offer a way out for reform in these programs and can be presented as part of Brazil's contribution to the Round. The conclusion of the Round could inject some dynamism into the world economy and at the same time revive the support for the multilateral trading system and the WTO and open up the road to reform. But Brazil cannot be asked to pay the price of sustaining the MTS and the WTO.

Under the current circumstances it seems very difficult to mobilize support for the reform of the WTO, with attentions focusing elsewhere in terms of internal problems and trade negotiations and a dwindling commitment to the multilateral trading systems. This is not a problem of the WTO. The reforms of the Bretton Woods institutions are unfinished. Of the reform of the UN Security Council, people hardly speak anymore. If we have not entered a zero gravity world

or a period of chaos we are at a moment when some defend the *status quo* and see the future as more of the same and others have an interest in something different but are unable to articulate fully their proposals for change, nor have the capacity to implement them. Some initial signs of what this new multilateralism could be can be found in the decision by the BRICS to establish the New Development Bank and in the creation of the Asian Infrastructure Bank.

Trade negotiations have always taken place under different formats and covering different agendas. But when you look at agreements that cover 50% of world trade and have an agenda that deals with topics that are outside the WTO or find only limited treatment under her disciplines it is possible to conclude that what we are witnessing is the creation of a parallel multilateral framework similar to the ones mentioned before but with a far greater significance. All these initiatives could form part of what we could term the new multilateralism of a multipolar world. Nevertheless, the mega-agreements face, like the Doha Round, major hurdles to their conclusion. Some of these difficulties are similar and have to deal with the current economic situation and with the reaction to globalization. Others are specific to the mega-agreements and have to deal with topics in the agenda, like investment and new dispute settlement rules, and with the lack of transparency in the negotiations.

Globalization requires a multilateral regulatory framework and the importance of the multilateral trading system will tend to grow in proportion to the integration of a larger number of countries in the global economy, with the shifts in GDP and trade under way favoring the developing countries, with the emergence of new topics like global value chains and their requirements in terms of a global level playing field. These are all reasons in favor of a reflection on the future of the WTO and the MTS. This discussion has already started and in fact it is not new. Along the GATT years and after the creation of the WTO we have seen changes and adaptations, some agreed multilaterally and others politically decided by the major players. This course of action is always possible and could avoid a broad debate on the reform agenda. An alternative would be to start a discussion in Geneva about an agenda for reform and about what kind of organization and system would meet the requirements of the changes underway in the international economy.

Gradual transformation will not deliver a WTO for the XXI century. Two essential ingredients would be absent: legitimacy and balance. The WTO has better conditions to reform and modernize and continue to be the pillar of the MTS. Globalization requires multilateral rules, it still enjoys support and prestige, but above all because trade regulation and liberalization do not touch upon the nerves of power like the reform of the Security Council or the Bretton Woods

institutions. The redistribution of power in the trade area is underway and is not reversible. The Doha Round saw a redistribution of power also in the decision making power in Geneva with greater transparency and emerging and developing countries taking center stage. Again, the reforms are underway and it would be a mistake to try to ignore or revert them.

Let me conclude this part with some brief suggestions of a possible agenda for reform of the WTO. The first point would deal with the broad outlook on trade and its links to development. Many issues could be part of this debate but I would select two as the most relevant: the correlation between trade liberalization and distribution of the benefits of trade and the rules relating to developing countries. The two issues are linked.

The relation between trade and distribution is now an issue that concerns developed and developing countries, as shown by the reaction against globalization and against the mega-agreements. From a new vision of the role of trade liberalization in growth and development we could derive a new approach to development in the MTS which would go beyond the S and D provisions. This new approach to development and trade would make the North-South approach to trade negotiations something of the past. The relationship between trade and development would not be seen as the natural consequence of trade liberalization and integration in the world economy but as the result of a complex interaction of policies where trade liberalization could play a role as an instrument to growth and development.

The second point of the agenda could tackle the issue of the WTO as a forum for negotiation. Again two issues suggest themselves as relevant: the negotiations in rounds based on the principle of the single undertaking and the relationship between multilateral and plurilateral negotiations.

The third point would deal with the agenda of the WTO. This agenda has been evolving since the early days of the GATT and the WTO included several important new areas like services, IPR and investment, these last two subject to a limited approach. The question of the agenda is difficult to negotiate because it brings forth the issue of balance and the question of where to draw a line in terms of the coverage of trade negotiations. The solution of the two previous points could make it easier to agree on a new agenda for development would be central and plurilateral negotiations and a rolling negotiating agenda could be agreed.

The fourth point would refer to two connect but separate issues: the methods of work of the WTO and the format of the process of coalitions and consensus building. As regards the methods of work we could explore new forms of articulation between small and informal groups, plurilateral approaches and the multilateral format. In terms of coalitions the North-South division, already not much present in trade negotiations, would be replaced by thematic

groups like the G-20, Cairns and the Group of Thirty Three (G-33). These groups focus on specific problems and by their membership, which includes countries with different interests and perspectives can be seen as natural building-blocks to a multilateral approach to consensus building.

The last point would deal with the dispute settlement procedures and take another look at certain general questions like compliance and retaliation and some practical issues like size and composition of the Appellate Body and measures to facilitate participation in the litigation process.

9 PLURILATERALS AND BILATERALS

The new agenda of trade negotiations with the mega-agreements and other initiatives and with a proliferation of bilateral arrangements should be carefully considered by Brazil for several reasons. The first has to deal with the possible impact of these negotiations on the MTS and the WTO, a topic covered before. Again the text by Defraigne (2014, p. 9) mentioned before states clearly this issue: "Bretton-Woods multilateralism has provided the world with 30 years of economic growth following World War II." And:

However, market-driven globalization has taken over and has succeeded in eventually bringing about a certain North-South convergence through the rise of Asia, driven by China's renaissance. This change in the power balance between emerging and advanced economies must translate into a new type of governance. This governance model must build up on Bretton-Woods foundations, and must definitely retain its multilateral character, but with the rebalancing of voting rights and enough flexibility to allow for the diversity of development models in economies that are catching up. TTIP goes in a different direction by substituting pressure with negotiation and by imposing a "one-size fits all" reference model (Defraigne, 2014, p. 9).

The second is the impact that the negotiations could have on Brazil's access to markets. On this topic a number of studies have been conducted, mostly by Thorstensen and Ferraz (2014). These studies indicate that the impact on Brazil in terms of GDP growth and trade would be important in the case of tariff reductions or even elimination. However, if NTBs are included the impact will grow significantly confirming the evaluations that the main results of this negotiation would come from regulatory harmonization. The main conclusion of the study is that:

the conclusion of TTIP and TPP will represent a serious threat to Brazil. Not only it will lose international market, but will be left behind in the negotiations of international trade rules, losing its present role as relevant global rule maker, accepting a secondary role of passive rule taker. In a time of global value chains, the integration of Brazil with major economies is fundamental to the survival of the industry (Thorstensen and Ferraz, 2014, p. 7).

And the authors go on to recommend:

that the negotiation of an agreement between Brazil and the EU, now in its final phase, is an important step forward and should be concluded rapidly, before the finalization of the TTIP negotiation. But a second step should also be considered seriously – that of an agreement with the US. There is no “trade logic” of an agreement with the EU without an agreement with the US in the case of a successful TTIP. With the TTIP and TPP, a new opportunity is open to Brazil. It is time to review the priorities and to re-evaluate losses and gains. The costs of Brazil’s isolation in the world because of the difficulties of Mercosul should be re-examined with care (Thorstensen and Ferraz, 2014, p. 8).

As pointed out by Canuto (2015) in a recent article we should not take these negotiations lightly for there are other relevant factors that could affect Brazil. As he indicates:

the potential impact of mega-trade agreements goes beyond how they affect trade, since exposure to increased competition at home and the impact of such a deal on export destinations and in third markets can boost productivity growth and improve competitiveness. This applies not only to tradable sectors, but also to non-tradable activities in participating economies.

The third is the diminishing ability by Brazil to integrate GVCs. Brazil cannot compete with low cost labor producers and integrate GVCs at the lower end. Without reform of its trade and industrial policy Brazil would also face great difficulties in integrating GVCs at the higher end.

These problems have a direct impact, as mentioned by Baldwin (2014), on major emerging countries like Brazil, China and India. China, however, is already open and integrated and is implementing major reforms with a view, among many other objectives, to change its position in GVCs and move from a quantitative to a qualitative economy. Brazil and India face a more difficult task. In any event, these countries would, in the event of a successful conclusion of the mega-agreements, be faced with a dramatic option of either accepting these agreements and conform to their new standards or reject them and face greater isolation. As Baldwin (2014) points out the WTO traditionally was the first pillar of the MTS and regional trade agreements would need to conform with its dispositions. With the mega-agreements the situation could be reversed with the central negotiation taking place at the regional level and its results being then multilateralized.

The question that Brazil is not part of many GVCs is highlighted by Canuto, Fleischhaker and Schellekens:

Brazil’s extraordinary lack of openness and its small number of exporters are closely related to the fact that Brazilian companies are poorly integrated into transnational value chains. This can be observed in the very high share of domestic value added

in Brazilian exports, which implies that such exports incorporate few components and intermediate goods imported from other countries. (...) Even in Brazil's manufacturing exports (about a quarter of total exports) domestic value added is still extremely high, at 93%. Indeed, it is the highest among all economies for which such data are available (Canuto, Fleischhaker and Schellekens, 2015).

Furthermore,

this high level of domestic value added shows that the global fragmentation of production processes along cross-border value chains, a very important part of the second wave of globalisation, has largely bypassed Brazil. The factors behind this are multiple. They include precarious logistics and high transaction costs related to international trade, as well as deliberate policy decisions to favour local content over international integration (Canuto, Fleischhaker and Schellekens, 2015).

Again quoting Baldwin (2014), what is important to realize is that the new generation of trade agreements is attempting to lock-in reforms of disciplines to underpin a trade, investment, services, IPR nexus. Countries outside these agreements would not only face difficulties in terms of market access and trade diversion but also the possibility of reduction in foreign investment flows.

The fourth is the effect of the negotiations in terms of setting new rules and standards and the impact of these on domestic policies in Brazil. On the issue of rules and standards two points are relevant: first which rules become the norm and cover the larger share of trade and second the issue of the asymmetric nature of the negotiations with the negotiation between the US and the EU taking center stage in terms of the creation of global norms and standards.

The responses to these changes should be threefold: first Brazil needs to reform its trade and industrial policies to foster productivity and competitiveness and to promote a greater openness and favor negotiations. As Singh (2014), discusses in his papers on the need a reconsideration of India's trade policy the new trade negotiating agenda and the responses countries, in particular China, are adopting to face these changes will "have implications for the extent of flexibility which the country will have to accept evolving industrial disciplines". This indicates the need for an analysis of the linkages between domestic reform and international trade negotiations. This is quite an adequate summary of the Brazilian situation. We need a reform agenda and to establish the links between the internal reforms and the external environment in order to develop a new negotiating agenda.

The second point has to deal with the possible responses in the face of the impact of major negotiations which exclude Brazil. These responses should include a growing dialogue and cooperation with other countries in a similar situation, in particular China and India. Here two questions are central:

in what way will China move and will India reform and open-up. China has been promoting parallel initiatives to counter the moves in the trade area. These initiatives include the new silk road, the infrastructure bank, and the formation of an Apec FTA. China is the country that benefitted most from globalization. It is now in the midst of implementing reforms to transform its integration in the world economy. It is very difficult to conceive that China, excepting a major set back in its reform process and a substantial drop in its growth rate, will not engage and accept the new parameters in trade negotiations. The discussion of an investment treaty with the US is a sign in that direction. Europe also wants to negotiate such a treaty with China. If this is the case and China will eventually move towards further trade and investment opening and acceptance of the new trade agenda Brazil and India would face an even more difficult scenario.

Another variant of this approach would be to involve the BRICS and other emerging market economies in exploring alternatives to the current trade agenda.

Finally, Brazil, as China and India are doing, should explore other initiatives, especially at the regional level. This could involve launching bilateral trade negotiations with significant partners and working on the relaunching of Mercosur and on other integration initiatives.

These are difficult negotiations as shown by the missed deadlines for their conclusion and by the difficulty in the passage of new trade promotion authority in the US Congress. But to bet on the failure of the mega-agreements and ignore them would be a fatal error. Beyond the questions mentioned before that could impact Brazil I would stress the growing isolation of Brazil and the increasing difficulty in participating in the more dynamic export sectors. Without a credible regional basis in terms of markets and integration of value chains and excluded from major trade negotiations Brazil's options in terms of building a new negotiating agenda will be severely constrained. This could lead to a growing concentration of our exports on commodities and contribute to a further weakening of Brazil's manufacturing and services industries.

Finally, on bilateral agreements Brazil and Mercosur have missed the age of the proliferation of FTAs. This has had several consequences: the greater isolation of Brazil and Mercosur; marginalization from GVCs; separation within the region from countries that opted for a more open trade policy; reconcentration of exports on commodities and exclusion from the more dynamic sectors of international trade. Part of this strategy had to deal with the priority for Mercosur something that became anachronistic as the integration mechanism failed to evolve and the participating countries adopted national policies that violated the objectives of integration. Part of it reflect the use of outdated industrial policies based on ideas like the constitution of national champions and domestic content requirements.

It is now clear that Brazil has to review its trade negotiating strategy and part of this revision must include a credible agenda in terms of bilateral negotiations with partners that already have or have the potential to have significant trade with Brazil. This could include a new generation of FTAs with countries such as Canada, South Korea and Turkey, with integration agreements such as Asean, and with BRICS member countries. It could also encompass agreements incorporating some of the new topics on the agenda of trade negotiations, like, competition, investment and simplification and harmonization of regulatory measures. Finally, it could include, in the area of commodities, long term agreements where supplier and consumer could negotiate access to markets, long term supply commitments and price. We could also explore the growing use of national currencies in some of these agreements.

10 THE REGIONAL FRONT

The growing importance of regionalism and regional powers in a more multipolar world creates for Brazil major responsibilities. In any review of Brazil's trade policy the issue of regional integration must figure as a priority. The agenda is vast and complex but in fact is well known and has not changed much in the past decade. During 2002 I coordinated a series of discussions on the future of Mercosur. The final report (Huguene and Cardim, 2003) identifies the central issues and proposes a number of actions which, by and large, remain valid. Unfortunately, what lacked was decision and implementation.

I would simply like, in the context of this text, to make three comments on the current priorities for Brazil regarding its regional environment. The first has to deal with Mercosur and the need to come to grips with its current problems. This would require a new political consensus by the partners to move towards an integrated market, with the adoption of a work program and the commitment to fully respect such a program and the agreed decisions and common rules and disciplines. Failing this, the partners should be free to pursue their own strategies on the trade front.

The second point refers to the broadening of the integration process in South America. We have to consider whether it is still possible, in the light of the lack of progress in Mercosur, to envisage a process of enlargement centered on it. Under the current circumstances and with countries in the region having adopted completely different trade strategies it looks very difficult to see Mercosur as a hub for the integration of South America. In fact, we have to question whether this objective is still attainable. In any event, we should move away from the old idea to have reduction in trade barriers as the main engine of the integration

process. Two other instruments could now take priority: integration of regional value chains and infrastructure development.

Finally, we must work towards avoiding a complete separation and segmentation of South America and Latin America and the Caribbean. Here two questions appear significant: the relationship between the Atlantic and the Pacific coasts of the Continent and the North-South and the need to consider a fresh and modern approach to LAC integration.

On the first issue, Brazil would have to develop a new strategy for the South Atlantic. This should also involve a rebalancing between our approach towards the North and the South Atlantic dimensions of our foreign and trade policies. This could involve the negotiation of FTAs with African countries on the Atlantic coastline together with an active cooperation diplomacy and the improvement in communications and navigation routes.

A serious effort at concluding the negotiations with the EU under the original format, with flexibilities to accommodate different implementation schedules, or on an individual basis would be important to safeguard our market access interests, in particular in the agricultural area, in the event of a successful conclusion of a Tafta, and to promote the Atlantic dimension. One possibility which could be explored is an eventual enlargement in the agenda of the negotiations with the EU to contemplate some of the new topics like investment and some aspects of regulatory measures, in SPS, for instance. We must also open new avenues of cooperation with the other side of the Atlantic that could include exploration of trade and investment initiatives with the US and Canada, as well as agreements in some specific areas. In this context, Brazil, the US and Canada as three major agricultural producers could work together to develop strategies to meet the growing challenges in the area of food security.

On the second question, a renewed relationship with Mexico seems a priority in two areas: as a central element in a new approach to LAC integration and in the development of regional value chains as an important step towards a new hemispheric relationship. It is absurd to try to deny or reject this fundamental dimension of our geographical context.

11 FINAL CONSIDERATIONS

In an essay on the current US foreign policy strategy, Brooks (2014) tries to meet the difficulties of defining a strategy under conditions of uncertainty. The opacity of the current period makes predictions extremely hazardous. In this situation, the recourse to general formulations and the avoidance of specific recommendations is a natural tendency.

It is interesting to note that Fukuyama's (2014) recent article on the disfunctionality of American politics and government starts with an analysis of the virtues of the Forestry Service in its early days. Times were simpler, values shared and the relationship between ways and means and objectives more straightforward. There is a clear nostalgia for a period where priorities were easily agreed upon, commands followed and the State machinery shared a sense of pride and purpose. Now different truths compete for supremacy, values are degraded and the superiority of the West is under question.

The present text does not pretend to give clear directions as regards the current period of open transition. It tries to incorporate uncertainty and points to possible lines of evolution and tries to avoid generality by focusing on the trade front and suggesting some specific recommendations as regards Brazilian trade policy. The suggestions for change can hardly be considered, under the uncertainty facing Brazil, at the present moment, to have a good chance of gaining support and being implemented. This is not an academic paper but an attempt at using a long experience in trade negotiations to try to contribute to an on going debate on a way forward for Brazil in the area of trade policy. The perspective is, as stated at the beginning, a diplomatic one.

Whether multipolarity is here to stay and will change permanently the structure of the current world order and the dominance of the US and the West or whether this will prove to be a passing moment, is an open question. There are signs that multipolarity is gaining ground and that the world is moving according to a more multipolar dynamic, but also that the resistance to change to a more multipolar world is growing and that the US seems determined to counter, with its new agenda in the strategic and trade areas, the development of multipolarity and to defend its hegemonic role, or as some would prefer its supremacy.

Brazil is a relevant actor in these changes, can influence their course and is in turn affected by them. Unfortunately, the awareness of what is happening in the world is obscured by Brazil's internal problems. But these universes cannot be separated: what is happening in the world will influence Brazil's internal choices and these will determine Brazil's position in the world.

In the trade area the text tries to indicate some of the conflicts that could shape the new trading system: multilateralism versus regionalism, defense of the *status quo* against attempts at change, the growing geopolitical dimension of trade negotiations and the responses these movements are engendering; the possibilities of a great convergence and a great rebalancing and the lack of leadership and direction in the multilateral system; a new multilateral trading system to reflect a growing multipolarity or the prevalence of regionalism and fragmentation.

Brazil's ability to influence these changes exists but is limited. That is why Brazil should, at the same time, concentrate on its internal development and putting its house in order, and follow closely what is happening abroad and try to influence events together with other like-minded countries to facilitate changes and to preserve space for Brazil in the world trading system.

The text departs from the need for internal reforms in Brazil and moves to a number of recommendations as regards our positioning in terms of integration in the world economy, reaction to the mega-agreements and development of a new regional agenda. As a consequence of these moves, a new negotiating strategy with the double aim of increasing Brazil's participation in the world economy and diversifying its exports is proposed.

All along the text, the idea of a new multilateral construct to promote a great convergence and a great rebalancing and to harness globalization while promoting its expansion under agreed multilateral rules is presented as a desired outcome. In this sense, the text remains true to Brazil's multilateralist tradition while acknowledging the need for revising some of the icons of the past, like the North-South divide. But the text also recognizes that an exclusive commitment to multilateralism does not serve Brazil's interests anymore. A more complex and diversified strategy and negotiating agenda are needed. Some of the proposals that are made are provocative and will find many opponents. That is the purpose of the text; raise issues for discussion more than provide finished solutions. In the end uncertainty is part of the equation.

REFERENCES

- BACHA, E. Integrate to grow: Brazil in the world economy. **Revista Brasileira de Comércio Exterior – RBCE**, n. 118, p. 4, jan.-mar. 2014. Available at: <<http://goo.gl/OqbkXV>>.
- BALDWIN, R. **Trade and flag**: the changing balance of power in the MTS. Monograph (Graduate) – Institute Geneva, Geneva, Apr. 2014.
- BROOKS, R. Embrace the chãos. **Foreign Policy**, Nov. 2014. Available at: <<http://goo.gl/sYjRGb>>.
- CANUTO, O. Are mega-agreements a threat to Brazil? **The World Post**, 28 Apr. 2015. Available at: <<http://goo.gl/QhPyWE>>.
- CANUTO, O.; FLEISCHHAKER, C.; SCHELLEKENS, P. **The curious case of Brazil's closedness to trade**. [S.l.]: World Bank Group, Apr. 2015. (Policy Research Working Paper, n. 7228). Available at: <<http://goo.gl/xLcKSh>>.

DEFRAIGNE, P. Departing from TTIP and going plurilateral. **Madariaga Paper**, v. 7, n. 9, Oct. 2014. Available at: <<http://goo.gl/JKN92H>>.

DOLLAR, D. **China's rebalancing**: lessons from East Asian economic history. Washington: Brookings Institution, Oct. 2013. (Working Paper Series). Available at: <<http://goo.gl/hQIXAS>>.

DULLIEN, S.; GARCIA, A.; JANNING, J. **A fresh start for TTIP**. [S.l.]: ECFR, Feb. 2015. (ECFR Policy Brief). Available at: <<http://goo.gl/xxuHJV>>.

FROMAN, M. B. The strategic logic of trade: new rules of the road for the global market. **Foreign Affairs**, Nov.-Dec. 2014. Available at: <<http://goo.gl/upKoxE>>.

FUKUMOTO, T.; MUTO, I. **Rebalancing China's economic growth**: some insights from Japan's experience. Tokyo: Bank of Japan, Jul. 2011. (Bank of Japan Working Papers Series, n. 11-E-5). Available at: <<https://goo.gl/5dpfxG>>.

FUKUYAMA, F. America in decay: the sources of political disfunction. **Foreign Affairs**, Sept.-Oct. 2014. Available at: <<https://goo.gl/yNRjeX>>.

GORDON, B. K. A high-risk trade policy. **Foreign Affairs**, Jul.-Aug. 2003. Available at: <<https://goo.gl/2hTPhz>>.

HUGUENEY, C. Brazilian trade policy: old questions, new challenges. **Revista Brasileira de Comércio Exterior – RBCE**, n. 119, p. 4-9, Apr.-Jun. 2014. Available at: <<http://goo.gl/GBdvWR>>.

HUGUENEY, C.; CARDIM, C. H. (Eds.). **Reflexion group on the prospects for Mercosur**. Funag, 2003.

KUPCHAN, C. A. **TTIP's geopolitical implications**. Baltimore: John Hopkins University, Jun. 2014.

SINGH, H. V. **India's trade policy reforms and its interaction in international trade negotiations**. 2014.

STIGLITZ, J. On the wrong side of globalization. **New York Times**, 15 Mar. 2014. The Opinion Pages. Available at: <<http://goo.gl/ujA2ga>>

THORSTENSEN, V.; FERRAZ, L. **The impact of TTP and TTIP on Brazil**. São Paulo: FGV, Jan. 2014.

WHITE HOUSE. **National security strategy**. Washington: White House, Feb. 2015. Available at: <<https://goo.gl/qM1b1K>>.