

# Battle for Globalisations?

BRICS and US Mega-Regional  
Trade Agreements in a  
Changing World Order



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## About the Authors

**Marko Juutinen** is a Visiting Fellow at the Observer Research Foundation, New Delhi. He is a Doctoral Researcher in politics at the School of Management, University of Tampere, Finland. He has done research and taught at the university on various subjects including international political economy, trade agreements, and political theory. He has authored reports on TTIP for Finnish think-tanks and civil society organisations, and written op-ed pieces for leading Finnish magazines.

**Jyrki Käkönen** is Emeritus Professor at the School of Management, University of Tampere. He was the Professor of International Relations and European Studies at the Institute of Political Science and Governance in Tallinn University, Estonia (2007-2015) and Jean Monnet Professor Emeritus in the Department of Political Science and International Relations, University of Tampere, Finland (1998-2007). He has served as the director of the Department of Political Science and International Relations (2002-2007) and the director of Tampere Peace Research Institute (1988-1998). His current research interest is in the changing international order and how this poses a challenge to Eurocentric IR approaches. Among his recent publications are: "Interpreting the Transforming World: Perspective from Peace Research", *New Global Studies* 5(3) 2011; the book, 'Euro-Asia' at the Crossroads: Geopolitics, Identities and Dialogues, SHIPRA: New Delhi 2011, co-authored with Sanjay Chaturvedi and Anita Sengupta; the piece, "International Relations in the Finnish National Epos 'Kalevala'" (in Finnish) *Kosmopolis* 4, 2013; and a chapter, "BRICS as a new constellation in international relations?" in Kaarle Nordenstreng and Daya Kishan Thussu (eds.), *Mapping BRICS Media*, Routledge: London and New York 2015.

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## Abstract

Various analysts consider BRICS (the association of Brazil, Russia, India, China and South Africa) as a manifestation of a changing world order, heralding the dawn of a 'Post-Western Age'. In the context of 21st-century regionalism—as presented in this paper—and global power shifts, the thesis of change would seem viable. Indeed, regional trade agreements and the diverse organisations in Asia, including the Shanghai Cooperation Organization, manifest an ongoing division of international cooperation into two centres of political, economic and military power: the transatlantic area, and Eurasia. This paper examines the two cases of BRICS, and the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), and tests the hypothesis of a 'battle for globalisations', understood in two conflicting ways: as a) battle for global dominance, i.e., singular globalisation led by either the West or the 'Rest', and b) a battle for plural, 'globalisations'. This paper endorses the idea of a more balanced and inclusive, and less 'western' governance, although within the global trade regime the thesis of singular globalisation can be maintained.

## Introduction

This paper contributes to current literature on the BRICS association (Brazil, Russia, India, China and South Africa) and the West-led Mega-Regional Trade Agreements in the changing world order. One characteristic of ongoing transitions in global geoeconomics is the shift of power from the West to the East, or from the Global North to the Global South. Another feature is the rise of BRICS on the international stage. A third is related to the West-led trade blocs, which may be viewed as reactions both to power shifts and the rise of non-western alliances. By concentrating on the major powers—in particular, the three Asian giants and the two transatlantic powers—and their reactions to change, there can be an increase in the understanding of transitions towards a new global order. The task of this monograph is to provide an analysis of what the authors deem as key features of change, BRICS, and the Western MRTAs—and how these all relate to globalisation.

BRICS was originally BRIC, founded in 2009 between Brazil, Russia, India, and China. South Africa acceded in 2011 and BRICS was born. Some analysts regard BRICS as a key actor for a new international order. Emerging power relations and new global initiatives have led these observers to advance the thesis of a dawning 'Post-Western Age,' with China and India as the future global superpowers.<sup>1</sup> Indeed, BRICS calls for the democratisation of the interstate system and opposes Western and US dominance of global governance. The decline of Western and US economic power relative to Asian and other emerging countries lends substantial credibility and international legitimacy to the BRICS demands.<sup>2</sup> As a result, BRICS seems to aspire for an increased plurality in the world order and indeed is increasingly becoming an agent for *globalisations*—the plural—as opposed to the old *globalisation* of the 1990s.

At the same time, the US is still a global superpower. Despite the power transitions, the US remains what A.F.K. Organski<sup>3</sup> called a 'competitive nation'.<sup>4</sup> Thus, if the US' broader objectives on global leadership<sup>5</sup> have not changed, then the strategies employed to maintain such leadership, must have. A key feature of new initiatives from the West are linked to trade. This paper examines US-led Mega-Regional Trade Agreements (MRTAs) as cases of US reaction and adjustment. For example, Daniel Hamilton and Ashley Tellis argue that the MRTAs can (and should) strengthen the liberal trade regime but also advance broader American objectives.<sup>6</sup> The Trans-Pacific Partnership (TPP) was concluded in October 2015 between the US and 11 other Asia-Pacific states, including all the members of NAFTA (North American Free Trade Association), four members of the ASEAN (Association of Southeast Asian Nations), and two Latin American countries. Negotiations between the EU and US for a Transatlantic Trade and Investment Partnership (TTIP) have been going on since July 2013.

The method of scientific enquiry employed in this paper is to form a hypothesis and test it against empirical evidence. The hypothesis is that the ongoing, multipolar power shifts is a 'battle for globalisations', as opposed to the singular globalisation that was a largely uncontested process. This broad hypothesis is divided into two conflicting hypotheses.

### **Hypothesis 1: Battle for singular 'globalisation'**

BRICS and the Western MRTAs are cases of great power struggle for world dominance. The Western MRTAs from this perspective are seen as dominant power strategies to maintain dominance, while the BRICS represents a contending power alternative. The two blocs would then be cases of conflicting and singular globalisations.

### **Hypothesis 2: Battle for plural 'globalisations'**

BRICS and the Western MRTAs are cases of increased plurality of globalising processes, dispersion of power, and the struggles of multiple actors to successfully contribute to global governance. The two initiatives would then represent a shift from the singular process of globalisation towards a plural globalisations.

Various empirical evidence are employed for this study, for instance, the BRICS Joint Statements, the TPP agreement, and other official BRICS and MRTA documents. The authors are also strongly relying on earlier literature on the various related subjects.

The paper is divided into seven sections:

Sections II, III, and IV provide the analytical framework for this paper. Specifically, section II describes the changes in global order, or what seems to be a new phenomenon of regionalism. BRICS and MRTAs, the authors argue, are cases of this new phenomenon. Section II also contrasts the new phenomenon with the prevailing understanding of 'globalisation', a concept that is increasingly becoming obsolete. Section III then discusses the emerging phenomenon.

Sections II and III also explicate the knowledge gap that this paper aims to fill. More specifically, these sections will show how few studies exist where MRTAs and the BRICS are treated as cases of a changing world order or a new phenomenon. Some research, however, have been conducted on the Western MRTAs and the BRICS, separately and without the contextualisation employed in this paper.

Section IV builds on the hypothesis from the state-centric perspective of power transition theory. In other words, this section focuses on Hypothesis 1. The military power and economic output of US and the BRICS are compared and contrasted, and literature on changes in financial dominance are reviewed. The purpose of such comparisons is to emphasise the importance of the BRICS as a whole, or the necessity of the association to function as a unified bloc in order to provide a contending force for the US. Further, the authors wish to underline that given increasing cooperation amongst the BRICS countries, the US is likely to react to maintain its global status. Otherwise, in the long run, the US will yield its place as a global superpower to China and India, and eventually find itself amongst the regional powers.

Sections II, III and IV can be read as different and conflicting conceptualisations of change – reflected in the conflicting division of the overall hypothesis. They are necessary for the sake of understanding the

phenomena of which the BRICS and the MRTAs are both cases, and for the formulation of this paper's hypothesis.

The rest of the paper is divided into two case studies and analyses. Section V deals with BRICS in the context of globalisation. It presents an overview of BRICS' initial development, from a loose forum to an effective organisation for inter-state cooperation. The new initiative, New Development Bank, is then described, along with a perspective of BRICS' relation to economic globalisation and international relations. Section V is thus a case study into the emerging plurality of globalisations.

Section VI deals with the MRTAs. It opens with an overview and then provides an analysis of the change between the WTO framework and the new MRTAs. Based on this work, the authors provide an analysis of the significance of BRICS as an answer to power transition, in terms of both economic power shift and stronger alliance formation.

The concluding section reviews the hypothesis against evidence on BRICS and MRTAs. This paper's chief contribution does not consist of an analysis of new data, but of bringing together current data in an attempt to interpret and conceptualise the changes in world order. This paper argues that the scholarly understanding of a changing globalisation is still nascent. There is a clear need to conceptualise the phenomenon, localise its defining factors, estimate their significance, and build understanding of the new 'beast in the room', i.e., the contours of the coming global order. This monograph aims to contribute to this important task.





## Describing the New Phenomenon

This section aims to introduce the reader to one dimension of the changing world order: the proliferation of regional and inter-regional cooperation, which appear to challenge the predominant understanding of the relations between regional processes and globalisation. The phenomenon is not limited to regional economic integration but also relates to cooperation on various issues including financial, development policy, and security.

The concept of '21st century regionalism' was launched by Richard Baldwin in 2011 to account for some aspects of the new phenomenon. He referred to the rise of regional trade agreements which were emerging in response to a change in international trade: trade no longer is about producing at one site and selling at another but the production process is dispersed across countries and regions, specialised, and coordinated by lead firms at the top of the 'supply chain'.<sup>7</sup>

Baldwin's concept does not encapsulate the much broader underpinnings of regionalisation in the 21st century. Besides the rise of trade arrangements, the concept should also account for the rise of new initiatives of financial, developmental, political and security cooperation, where the leading Western powers—the US, EU and Japan—are either absent or in a minor position. In global supply chains the Western companies have dominant positions, but this does not hold for the other aspects of 21st century regionalism. In this broader sense the concept of '21st century regionalism' captures the fact that regional organisations have arrived at the centre stage. It does not provide much information as to the interrelations and implications of these.

With regard to trade, a Regional Comprehensive Economic Partnership (RCEP) is being negotiated between ASEAN, China, India, Japan, Australia, New Zealand and South Korea. The 16 member countries contribute to about one-third of global Gross National Product (GDP) and make up almost half of the world's population. It is regarded as a China-centric trade agreement, in contrast to TPP that was concluded in October 2015 between the US and 11 Pacific States. The Trans-Pacific Partnership also contributes about one-third to world GDP but its population is only about 10 percent of world population. While neither China nor India are members of TPP—where the US is the great leading power—Japan, Australia, South Korea, New Zealand and four of the ten ASEAN members are. Thus there is overlapping membership but with regard to the great powers, TPP and RCEP are exclusive.

The membership basis is not the only difference; TPP and RCEP also differ in scope and quality. TPP is a WTO plus agreement covering all the WTO agreements, with a purpose to a) increase market access by eliminating existing tariff barriers, expanding services commitments and opening public procurement markets, b) streamline regulatory differences that WTO framework allows to persist by regulatory cooperation and further developing of standards like intellectual property rights and finally incorporating c) the contested Singapore issues<sup>8</sup> and d) new non-trade issues like labour and environmental chapters.<sup>9</sup> RCEP, on the other hand, will likely be more limited with regard to market access, regulatory cooperation, standards like IP-protection, and leave out the non-trade issues entirely.<sup>10</sup> Other trade initiatives include the Russia-led Eurasian Economic Union (EAEU) and the Latin American Alianza Bolivariana para los Pueblos de Nuestra América - Tratado de Comercio de los Pueblos (ALBA-TCP).<sup>11</sup>

In the field of economy, security and politics, the Shanghai Cooperation Organization (SCO) is the most significant non-Western initiative. It was founded in 2001 between China, Russia and four minor states with Iran, Mongolia and Afghanistan as observers and Turkey, Belarus and Sri Lanka as dialogue partners.<sup>12</sup> While the organisation's power arguably is less than the combined power of its members, it may as well be argued that potential exists for SCO to become an Eastern variant of NATO, as the former Indian diplomat M.K. Bhadrakumar<sup>13</sup> argued as far back as in 2007. Indeed, SCO holds military drills on a regular basis. Now that India and Pakistan are also set to join<sup>14</sup> in 2016, the bloc will cover most of the Eurasian military and economic powers.



Along with BRICS, SCO is not the only organisation bringing together the major Eurasian powers. RIC, the ministerial level conference between Russia, India and China, coordinates member states' policies in multilateral and regional organisations. In the Communiqué of the 13th ministerial conference the RIC countries stated their commitment to 'democratization of international relations' and to a multipolar world. RIC are exploring cooperation in oil and natural gas production and transportation, besides building networks between their respective think-tanks, businesses and cooperating in agriculture, disaster mitigation and relief, medical services, and public health.<sup>15</sup> With regard to the long-standing disputes between India and China and China and Russia, the SCO, RIC and the BRICS indicate the trio's ability and will to see beyond the disputes and work together in the regional and global setting.<sup>16</sup>

Financial initiatives include the Alba Bank in Latin America but, more importantly, the Asian Infrastructure and Investment Bank (AIIB) and New Development Bank (NDB) launched in 2015 under the leadership of China and BRICS, respectively. As international financial organisations, the AIIB and NDB can contribute to a reconfiguration or at least variegation of development finance – besides balancing the political power over development policy that has previously rested firmly with the developed countries<sup>17</sup> within the Bretton Woods framework.

In consequence, the Eurasian trio is cooperating on multiple fronts and with different platforms which often also are open for other emerging and/or Eurasian powers. It is also notable that in none of the new initiatives—RCEP, BRICS, SCO, RIC, AIIB, NDB (or ALBA-TCP)—do the developed countries have positions of any remarkable influence. In most of these initiatives the developed Western countries are actually excluded and the declining aspirant of global leadership is absent from all of them. Thus there is a kind of realignment along the Eurasian axis of China in the East, Russia in the North and bordering the EU, and India controlling the economically vital and politically unstable region of the Indian Ocean.

A similar trend can be found among the Western countries<sup>18</sup> of the US, Canada, European states, Australia and Japan. The Western initiatives include, most importantly, the TPP introduced above, the Transatlantic Trade and Investment Partnership (TTIP) between EU and US, Trade in Services

Agreement (TiSA) between 23 Western countries and their allies, and also the Comprehensive Trade and Economic Agreement (CETA) concluded between EU and Canada in 2014. In TPP, the US is the single most powerful state and in all others it is either the EU or both the US and EU. Some members of TiSA and TPP have overlapping membership, in case of TPP the ASEAN members and the Western Pacific states, who are also part of RCEP. None of the members of these West-led initiatives, however, are BRICS members, permanent members of the SCO, or the NDB. Overlapping membership is limited to AIIB and RCEP, both however centered on China.

What is seen then is a diversion of membership in new regional and mega-regional initiatives along the two poles of the West and 'the Rest'—one led by the US and the other with China and RIC-countries. As the Eurasian trio maintains a commitment to international democracy and as neither Russia nor India accepts Chinese hegemony, one can indeed see the formation of an increasingly multipolar world. The question is: What do these changes indicate or what is the emerging new status quo? Moreover, is the world seeing only the beginning of global transformations? These questions depend on how the different factors of change relate to each other in the context of globalisation. Some interpretations on the change have already been made. In fact, interpretations were made as early as in the 1990s following the thawing of the Cold War. Fukuyama's thesis on *The End of History and the Last Man* elucidates the spirit of optimism: that world history had reached its final phase and that the future evolution of international relations would now take place along the institutions and principles of liberalism and free markets, guided by the world's foremost democracy and the self-proclaimed leader of the 'free world'.

While cautious voices of some prominent American realists have warned against exaggerating the appeal of the liberal order for the future global powers, China, India and Russia,<sup>19</sup> there has been little evidence to suggest otherwise. Indeed, in January 2000 US President Bill Clinton<sup>20</sup> expressed his belief that China was on track to be integrated with the world order: "Bringing China into the World Trade Organization (WTO) on the strong terms we negotiated will advance critical economic and national security goals. It will open a growing market to American workers, farmers, and businesses. And more than any other step we can take right now, it will draw China into a system of

international rules and thereby encourage the Chinese to choose reform at home and integration with the world.”

21st century regionalism in the above presented trade-plus sense implies that there was at least one crucial fault in the optimism of the 1990s. It is founded in US insistence on global leadership and its rejection of a multipolar world order. According to scholars like Samuel Huntington, Niall Ferguson, and Rajiv Malhotra, the Western optimism and US broader foreign policy goals are embedded in a sense of Western supremacy.<sup>21</sup> Looking at the history of civilisations, this Western self-image can arguably be labelled as *hubris*.<sup>22</sup> In addition to this academic perception of the fault of optimism, there is also a practical dimension to it. Joint declarations by the BRICS—legitimised through rising international leverage of particularly the Eurasian trio—indicate that critical perspectives to Western universalism are not limited to the academia. The rejection of Western supremacy and universalism seems also to be a manifest feature of the current change in global order.<sup>23</sup> This begs the question: To what extent are the different processes of change actually competing processes of globalisations? In other words, is there a case for a battle for a different kind of globalisations?

Globalisation refers to the webs of global interdependencies, forms of social interactions, and power relations that cross territorial and physical boundaries. In this sense, globalisation is not a unitary process but consists of multiple different and overlapping processes. Global governance, meanwhile, refers to the institutions that direct the flows of global interactions in a certain manner. It also refers to the official and non-official forms of collective action and the complex thread of political authority resulting from them. With *globalisation*—in singular form—in contrast to *globalisations*, we thus refer to those forms of governance which provide structure and frame for the multiplicity. In terms of economic globalisation, the key structures are the Bretton Woods institutions, the WTO, Basel Committee, Financial Stability Board, and Bank for International Settlements.<sup>24</sup>

So far, economic globalisation has been closely linked to US and developed country dominance. Partly for this reason can economic globalisation be defined as a process with a certain set of values and premises, key institutions and organisations that give the economic globalisation a sort of systemic structure and form. Indeed, there seems to be an agreement on this point

among world systems theory, and theories of transnational capitalism and liberal institutionalism.<sup>25</sup> Larry Summers,<sup>26</sup> for example, wrote that even the regional trade agreements are conducive to the process of economic globalisation because they share the same basic premises of commerce and thus have a common framework upon which the global trade regime can be built.

The case is different in political globalisation. Nations have been unable to provide for a similar type of governance structure for political governance as within the realm of economy. However, US power, alliance networks, military presence, and strong economic ties, have created a stability where common action has failed.<sup>27</sup> With the decline of US power and the assertiveness of Eurasian global powers, the US' ability to provide structure and form or stability within the field of global political governance is threatened. Similarly, the foundations of economic governance also seem to be subject to divergent conceptions – resulting also from the rise of non-Western powers. Does this imply the creation of a multipolar world or a competition for setting the rules of the world order?



## The Debate on Change: General Outlines

**H**ow well established is the idea of a new phenomenon and what kind of debates has it given rise to? This section reviews what has been said on the matter of change and the debates surrounding it. Emphasis will be put on the multifaceted nature of change: pushing the boundaries of political science, economics, trade law, foreign policy, and cultural studies.

In July 2015 the seventh BRICS Summit was held along with the non-Western international conferences of the SCO and EAEU. Writing in *BRICS Post*, the Moscow-based researcher Mark Sleboda's<sup>28</sup> interpretation was that "In Ufa, we are seeing the laying of the foundations of a truly multi-polar world order of independent powers – one that can and will deal with the West on its own terms." Others, including Barma et al.,<sup>29</sup> have also argued that deepening cooperation between the BRICS countries will diminish their connection to the West-led liberal world order while increasing BRICS' potential as a new, non-Western alternative. Barma et al.<sup>30</sup> went on to observe that in constructing parallel institutions of governance with the IMF and the World Bank, BRICS will undermine the role of Western powers and, in particular, that of the US, in defining the trajectory of future globalisation. Jayshree Sengupta,<sup>31</sup> for her part, argues that this leads to a reconfiguration of the world order. Finally, some researchers<sup>32</sup> envision an 'Asia-centric global civilisation', spreading peace and prosperity throughout the world. The latter now stands for the most extreme interpretation of the future and emerging new status quo where the Eurasian trio are the pivotal actors on stage.

These arguments resonate with the so-called 'China Threat' theory of the American realists,<sup>33</sup> referring to the rising power of China and its greater

consequent role in world affairs. For example, Brzezinski<sup>34</sup> proposed that the US should actively seek pathways to accommodate Eurasian states within the Western order. Were this to fail, Brzezinski argued, the second imperative would be to prevent the formation of an anti-hegemonic alliance between China, India, and Russia. More recently, John Mearsheimer,<sup>35</sup> another prominent realist, has noted that China and the US are destined to be adversaries and that China poses a genuine threat to the liberal world order. Basically then, this perspective is similar to the thesis by Kumar, but the American realists reflect on the change from a Western or US perspective. Correspondingly, what Kumar perceives to be a positive phenomenon is seen by the American realists as a threat. Not everybody accepts these two perspectives of change—views that may be divergent and yet are also similar. In fact, not a few prominent academics are of the view that no real change is really upon the world; that this so-called power shift (or 21st century regionalism) is not significantly changing the rules and principles of global governance.<sup>36</sup> A key argument from this standpoint is that BRICS—while changing the contours of global geoeconomics—still adheres to the traditional norms of international trade. What is intriguing is that BRICS' rise to economic prominence can be attributed to the flows of international trade. China's conduct within the World Trade Organization (WTO), for example, has been that of a rule-following power that preserves the status quo.<sup>37</sup>

This resonates with the interpretation that the BRICS alliance is not a symptom of a changing global order but an attempt by the BRICS elites to gain better access to the networks of transnational capitalist class. This position is prominently held by political-economy analysts of the Marxist school.<sup>38</sup> Similarly, proponents of liberal institutionalism hold that any benefits of the status quo slowly but compellingly diffuse liberal norms, constraining divergent BRICS political economy initiatives.<sup>39</sup> The thesis of change is further questioned by those who see BRICS as a weak coalition of heterogeneous countries with conflicting interests; they suggest that the principal factor that brings BRICS together is an interest in eroding Western hegemony.<sup>40</sup>

On the other hand, BRICS' perspectives to political economy, global economic governance, development policies but also responsibility to protect (R2P) seem to be different from those of the West. Most scholars indeed agree that BRICS have rejected the dominant political economy paradigms of the liberal order, including a market-oriented regulatory system, fiscal austerity, and

comprehensive liberalisation of trade.<sup>41</sup> Simultaneously, BRICS have retained varying measures of direct or indirect state control over markets,<sup>42</sup> most notably in China.<sup>43</sup> With regard to R2P, the BRICS maintain that use of force can be authorised only if a state requests intervention and that the sovereignty of the state in question is upheld during the span of the operation.<sup>44</sup>

What remarks can be made from this review of the current debates? Firstly, that it is founded on the power shift and its effects. Secondly, that even though power shift is agreed upon there is no scholarly understanding as far as its consequences are concerned, or the nature of the change in global order. Indeed, researchers from Marxist and liberal institutionalist backgrounds seem often to reject the notion of change. In contrast, however, realists and non-Western scholarship also emphasise that change is upon the world. More importantly, change involves conflicting interests. From this perspective, the worst scenario of 21st-century regionalism is disintegration of global governance or the inability of states and regions to cooperate.

Similar lines of thought can be found in more specialised discussions on the shifting landscape in global trade regime. Within this narrower conceptualisation of 21st-century regionalism, like earlier discussed, the TPP and TTIP, and the RCEP are the two major poles of change. At one end of this debate are those who, like Ana Capling, John Ravenhill and Daniel Hamilton, believe in multilateralising regionalism. This refers rather to the effect of the Western Mega-Regionals than the RCEP. The idea is that even the RCEP will contribute to multilateralism and that there is no inherent conflict between the two processes.

The rationale can be explicated in the following manner. First, RCEP would bring Asian preferential trade agreements under one umbrella, thus streamlining the Asian trade regime.<sup>45</sup> Second, the interconnectedness of the world economy would contribute to the externalisation of the TPP and TTIP standards, even to countries covered by the RCEP. For a more explicit explanation, reference can be made to what Anu Bradford has called the 'Brussels Effect'. According to Bradford, four conditions must be met for an economic area to externalise its standards: a sizeable market (providing an incentive to business to follow the strict rules); regulatory capacity; preference for strict rules; and the propensity to regulate.<sup>46</sup> In the case of TTIP and TPP, the first condition is clearly met; the two agreements together would account for about 60 percent of world GDP. Regulatory capacity, meanwhile, depends

on the ability of the trade area to enforce the new standards and this would hold for the EU, Japan, Australia and Canada. The proposed regulatory cooperation in TTIP and TPP covers interstate-level cooperation, ministerial cooperation, and sector-based cooperation between competent authorities, thus contributing to the regulatory capacity of the Mega-Regional trade areas.<sup>47</sup> Preference for strict rules and the propensity for them can also be confirmed as these are at the heart of the developed country trade policy.<sup>48</sup> In consequence, despite some expected trade diversion, one can argue that the TTIP and TPP standards will prevail in the long run. This is the first school of thought.

Other researchers, however, focus on trade diversion.<sup>49</sup> From the economic perspective, trade diversion means loss of the advantages of international competition because the trade flows are directed or influenced more by politics (in the form of Preferential Trade Agreements or PTAs) rather than the principle of comparative advantage.<sup>50</sup> From a governance perspective this implies the lack of ability to achieve common principles and standards. It also counters the idea of the classic theory on peace and liberal commercialism – that by increasing commercial relations, peoples and states come closer together.<sup>51</sup> The ability to achieve common terms of conduct underpins this notion. This perspective then emphasises the dissonance of PTAs and the new MRTAs with the multilateral trade regime set up by the 148 signatories of the Marrakesh Agreement Establishing the World Trade Organization in 1994.<sup>52</sup>

Besides these two main perspectives, some also argue that the TTIP and TPP are vastly overestimated. This school of thought focuses on the long-standing trade disputes between, for example, the EU and US and, secondly, on the economic weight of the RCEP countries and the emerging markets at large. The implication of trade disputes involving different regulatory approaches to politically sensitive issues—like hormones and GMO or privacy protection between the EU and US—will not be solved through Western MRTAs. At the same time, it lies in EU's interest and that of its member states to enhance their ties with the emerging economies. The combined effect of these factors are twofold. First, they obstruct the members of TTIP and TPP from forming an effective 'Mega-Regional Trade Area' by keeping them apart and, secondly, they push the members closer to the emerging markets and RCEP. The extreme interpretation of this school of thought is the building of the global trade regime not along the ambitious agenda of the developed countries but along the 'illiberal' agenda of the East.<sup>53</sup>



## Change from a Dominant Power Perspective

The two previous sections have described the broad outlines of the change in world order and the debates surrounding it. This section goes further into the state-centric perspective to change within the theoretical framework of power transition theory.

According to power transition theory, developed by A.F.K. Organski in his *World Politics* (1958) and elaborated by, for example, Tammen et al.(2000), power in international order is inherently linked to states. Power transition theorists maintain that an analysis of power shifts should comprise an examination of national goals of the most powerful states, i.e., to what extent are they satisfied or dissatisfied with the current order and to which extent their objectives are competitive. This analysis should proceed with a comparison of actual power, which the power transition theorists conceive of as a compound of three dynamic elements: population; economic productivity; and government stability, or the ability of government to use its common resources. Power shift leads to changes when the old dominant power loses its predominance, and this takes place when the competitors achieve an 80-percent threshold of power with regard to the dominant state. This threshold, power transition theorists argue, is based on empirical evidence.<sup>54</sup>

In economic terms, no single state has yet reached the threshold. BRICS economy as a whole, however, has already passed it. Some analysts refute this perspective by arguing that instead of economic output the focus should be on per-capita issues. However, power transition theorists claim that per capita is rather irrelevant to power in international relations. Thus a nation with relatively low per capita can still be a powerful nation if it has a large

population, its economic output is high, and the government accordingly has an abundance of resources and the ability to use them effectively.

The rise in BRICS' military expenditures emphasises the point. As illustrated in Table 2, BRICS' military expenditures have followed the trend of their economic output (as illustrated subsequently). In 1991 their share of US expenditures was 27 percent while in 2014 that share had risen to 65 percent. According to a recent RAND report, China's military expenditures have already given it the ability to contend US military supremacy in East Asia.<sup>55</sup>

In terms of population, the BRICS together account for about 40 percent of the entire world population at 7.3 billion, while US share is only four percent. For power transition theorists, BRICS then and in particular the Eurasian trio, should be the pivotal focus of rebalancing – as Brzezinski argued in the 1990s and as indicated by the US' Pivot to Asia policy. The rest of this section focuses primarily on economic output.

**Table 1: Military Expenditures and Population**

Military expenditures in constant US (2011) dollars (millions)	Population		
	1991	2014	2015
USA	462 941	577 511	321 368 864
Brazil	19 490	37 948	204 259 812
China	20 732	190 974	1 367 485 388
India	17560	49 999	1 251 695 584
Russia	62 247	91 694	53 675 563
South Africa	5 664	4 917	53 675 563
BRICS	125 693	375 532	2 930 791 910
BRICS share of US exp.	27%	65%	

Source: SIPRI 2015; CIA 2015.

This section presents comparative data on economic output for the US and a) individual BRICS countries, and b) BRICS as a whole. The purpose is to emphasise the economic and the resulting political significance of BRICS as a whole. To be able to pose a challenge to the status quo world order, BRICS cooperation is necessary, because the US still is more powerful than any single BRICS state, China included. From the power transition perspective, lack of effective cooperation among the BRICS will give time for the US to

counterbalance the three Eurasian giants. Through cooperation, the BRICS already have the economic leverage to speak to the US as an equal. Taking population and geographic scope of the BRICS into account and assuming firstly, that BRICS indeed cooperate effectively for common interests and secondly, that US rebalancing policies fail—it stands clear that the Post-Western Age is already upon the world.<sup>56</sup>

The rest of this section discusses the following issues:

- (i) Comparison of economic output between states
- (ii) Comparison of economic output between US and BRICS
- (iii) Financial power shift

### ***Comparing Economic Output: US and BRICS***

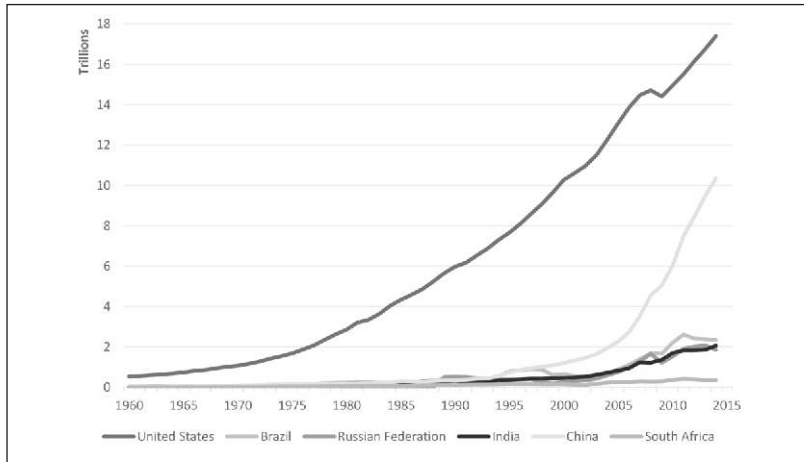
Economic productivity provides an approximation of power parity.<sup>57</sup> The present analysis involves two different types of comparison: state-level comparisons of individual BRICS with the US, and comparison of the BRICS, as an entity, with the US. GDP data from the World Bank (1960–2014) are used as empirical reference point. These data are reported in current US\$ and converted from national currencies at official yearly market exchange rates (World Bank 2015a). State-level comparisons comprise the following:

- I. Real GDP for US vs. each BRICS member in 1960–2014
- II. Real GDP for US vs. each BRICS member in 1960–2014 with fixed start value for individual states

The first comparison shows that, in real GDP terms, the US is threatened only by China while the rest of BRICS are still far behind both leading countries, as illustrated by Figure 1. Moreover, even China is not close to the threshold of power parity. However, the steep growth of Chinese GDP indicates a high likelihood of overtaking as suggested by Goldman Sachs researchers.<sup>58</sup> Remarkably, China's growth rate since economic reforms commenced in 1978 has consistently approximated 10 percent per annum.<sup>59</sup> In 2014, China became the world's largest economy in terms of PPP-adjusted (purchasing power parity) GDP – that is, adjusted with regard to the amount of goods and services that one dollar can buy in China in contrast to what it can in US or in

international markets.<sup>60</sup> (This measure is not suitable for international comparisons of national GDPs and thus a better suitable standard measure from the World Bank's is employed here.)

**Figure 1: Real GDP, US and BRICS members, 1960-2014.**



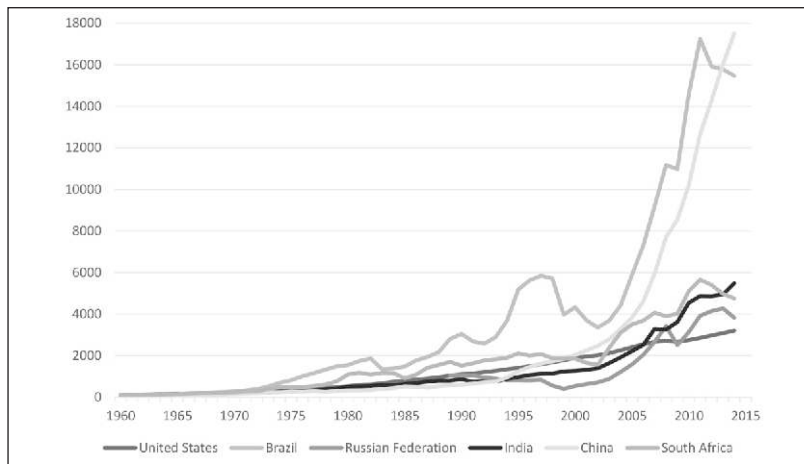
Source: World Bank

A comparison of real GDP figures fails to clarify the underlying dynamics of economic productivity. For instance, at the end of the Second World War, US' share of world economic output was almost 50 percent, and it still accounts for over one-fifth of global economic output today. As a consequence, differences between the growth trajectories of the US and minor-GDP BRICS countries are not discernible in Figure 1. This applies to all BRICS members other than China; for this reason, this study adjusted GDP growth to a fixed reference value for all countries but Russia (GDP1960=100). GDP data for Russia are available only from 1989 onwards. Thus Russian GDP growth is fixed to the adjusted GDP value for US in 1989 (adjusted GDPUS 1989=1040 = reference value for Russia).

The comparison with fixed starting values yielded interesting results, foremost of which is that all BRICS countries were found to exhibit superior economic productivity, with a definite turning point at the beginning of the 21st century. The best performers are China and Brazil, with adjusted GDP at 17505 and 15470, respectively. In contrast, US' adjusted GDP in 2014 was only at 3206, losing with a generous margin to India (5486) and South Africa (4751). Even Russia, with adjusted GDP at 3824, is at slightly higher level than the US. In

short, had the economies of the BRICS and US been at the same level in 1960, all BRICS countries would today be larger than US. This comparison is shown in Figure 2.

**Figure 2: Comparison of GDP with fixed start value for US and BRICS members, 1960–2014.**



Source: World Bank

State-level comparisons do not confirm the condition of power parity, but they do confirm the thesis of change: that BRICS have the potential to overtake the US in the future. The first comparison with real GDP indicates that the US position still remained unrivalled as of 2014, although already being threatened by China. However, the second comparison reveals that the economic dynamics have changed in favor of all BRICS countries during the latter part of the first decade of the 21st century. Given sustained growth rates among the BRICS, the hierarchy of great powers will therefore undergo fundamental change in the coming years.

In their estimates for the world economy in 2050, PwC economists forecast the following rankings, measured by size of national economy. China would be the largest economy, followed by the US and the EU. India would become the fourth largest, with Indonesia taking fifth position. Brazil would overtake Japan as the sixth economy, leaving Japan seventh, followed by Mexico and then Russia at number nine. Interestingly, South Africa's rival Nigeria would have overtaken it by a considerable margin. Individual European powers like Germany, the UK and Russia would be approximately the same in size as

Nigeria.<sup>61</sup> Table 1 compares the predicted order of nations in 2050 with the current order.

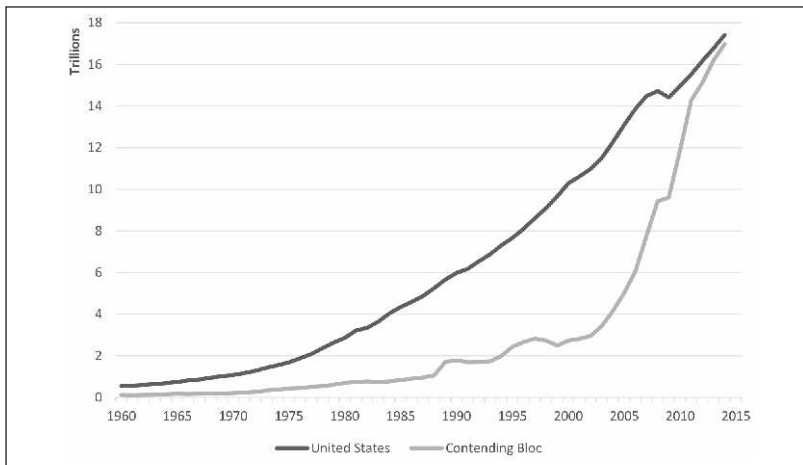
**Table 2: Economic power hierarchy in 2050 by GDP (at market exchange rates).**

Current order (2014)	Estimated order (2050)
1. US	1. China
2. EU	2. US
3. China	3. EU
4. Japan	4. India
5. Brazil	5. Indonesia
6. Russia	6. Brazil
7. India	7. Japan
8. Canada	8. Mexico
9. Australia	9. Russia
10. South Korea	10. Nigeria

Source: PwC 2015 (authors have counted EU members states as one unit)

A final comparison included a new variable labelled, 'Contending Bloc,' calculated by summing the individual GDP figures of each BRICS country as a basis for two comparisons with the US: real GDP figures and respective shares of total world GDP. The first comparison reverses the previous results: while individual BRICS countries have not reached power parity, the BRICS as a bloc has. Figure 3 provides an illustration of power parity.

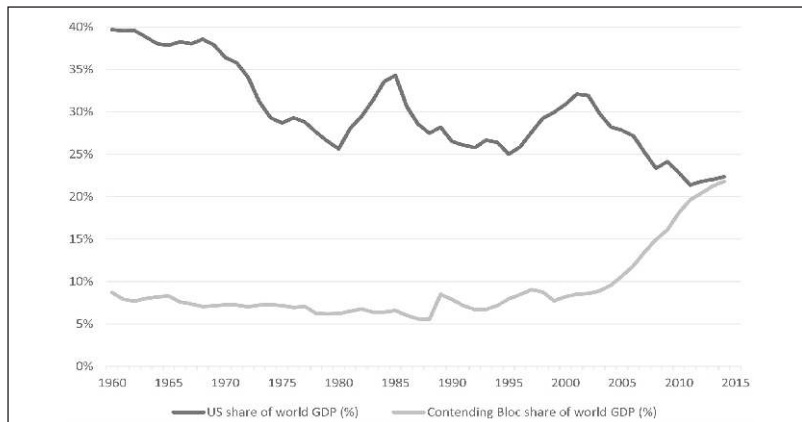
**Figure 3: Real GDP comparison: US and 'Contending Bloc' 1960–2014.**



Source: World Bank

Correspondingly, Figure 4 shows that the GDP share for the hypothetical 'Contending Bloc' equals that of the US. This downward trend in the US' share of world GDP began as early as 1965 with the rise of Europe and Japan to a competitive position. However, Europe and Japan did not rise to challenge the US; instead, US post-war policies such as reconstruction aid, common institutions for financial and economic oversight (Bretton Woods), and the Cold War contributed to the formation of an 'international community' of liberal economies.<sup>62</sup> In contrast, none of today's rising powers are full-fledged members of this community.

**Figure 4: Comparison between US and 'Contending Bloc' shares of world GDP 1960–2014.**



Source: World Bank

### *Loss of Financial Hegemony*

Gruzalski<sup>63</sup> has argued that one of the basic factors in US hegemony has been the role and value of the US dollar in world trade and as a global reserve currency. In addition, Varoufakis<sup>64</sup> and Vermeiren<sup>65</sup> have suggested that US hegemony between 1970 and 2008 was facilitated by the dismantling of financial regulation and the Federal Reserve's generous interest policy; these two elements – the dollar's international position and the US financial markets – made it possible for the US to maintain strong (finance-led) growth levels despite budget and trade deficits. For that reason, diminished dollar dependence is a threat to the US economy and to its hegemony.

Since the financial crisis of 2008, the dollar has lost some of its international appeal, as competing financial centers are on the rise – for example, Asian

central banks no longer accumulate dollars as their reserve currency, having cut their dollar reserves to less than 30 percent in 2009.<sup>66</sup> At the same time, the biggest trading nation (China) has an obvious interest in promoting its own currency and establishing it as one of the major international currencies through bilateral agreements and bank loans.<sup>67</sup> Cohen<sup>68</sup> has argued that the internationalisation of the Yuan is at the heart of China's financial strategy. During the two-year period of 2009–2010, China lent more money to the developing world than the World Bank.<sup>69</sup> Indeed, as the world's number one trading nation, China enjoys a wide transactional network, enabling it to promote the Yuan in intra-Asian trade transactions. This potential had already materialised in 2013 in a total of 18 currency swap agreements,<sup>70</sup> and some analysts<sup>71</sup> have inferred that a Yuan bloc has effectively replaced the dollar in East Asia.<sup>72</sup>

However, according to Cohen<sup>73</sup> and Khilnani et al.,<sup>74</sup> China may not be able to take over US financial hegemony, principally because of the country's limited financial sector liberalisation, the potential instability of its political system, and its insistence on capital controls. Nevertheless, it remains the case that the dollar's position is in decline. The Renminbi's recent accession to the IMF currency basket enhances its stability and appeal as an Asian alternative to dollar.

The US' leading position in world financial governance is also under threat. In 2015, the Asian Infrastructure Investment Bank (AIIB) was established under Chinese leadership, giving China a potentially greater role in Asia, which remains unattainable in the context of an Asian Development Bank still dominated by the US and Japan. The members of AIIB include a number of Western countries as well as some rising and developing economies. However, the US and Japan are not among the 57 founding members, of whom China is the leading shareholder.<sup>75</sup> As a consequence, AIIB has the potential to undermine US regional leadership, and this process, supported by broader use of the Yuan in East Asian trade, consolidates the thesis of financial rivalry in Asia between Yuan and dollar blocs. Some researchers have claimed that this polarisation has been driven by a US failure to push through reforms of the World Bank and the IMF, agreed among the G20 as early as 2010.<sup>76</sup>

Yet China's Yuan is not the only challenge to dollar dominance. At their 2015 Summit, BRICS agreed on inquiring into 'a wider use of national currencies in



mutual trade',<sup>77</sup> reflecting both BRICS' opposition to dollar dominance and a reluctance to embrace China's financial dominance. Some Indian scholars and policymakers<sup>78</sup> have argued that even the Indian Rupee could be used as an international currency and would perhaps be more suitable for that purpose than the Yuan. While India's transactional network cannot match the scope of China's, the rupee is convertible via market exchange rates, and its exchange restrictions have been relaxed – a crucial advantage for India, according to Khilnani et al., and one that China lacks.

The establishment of AIIB is mirrored by a similar 2015 BRICS initiative, which established the New Development Bank (NDB) as a complementary IFI to the World Bank and IMF.<sup>79</sup> The NDB opened for business on 7 July 2015. Unlike AIIB, shareholding is equally divided among the five founding members, confirming that the BRICS countries do not wish to replace US financial dominance with Chinese dominance but are instead cooperating on an equal footing. Nevertheless, AIIB and NDB have in common their opposition to a Western-led international economic order, as both rival or at least complement US-dominated IFIs.<sup>80</sup>





## BRICS in the Context of Global Governance

The concept of BRIC was invented by Goldman Sachs economist Jim O'Neill in a report on investment opportunities, referring to the booming economies of Brazil, Russia, India, and China. Following the crisis of 2008, Western investors were no longer the main users of the BRIC acronym, and its whole ideational context has been turned upside down. Instead of high profit margins for Western capital in the key Southern economies, it referred to Global Southern demands for the leading power in the Global North.

BRICS cooperation has two pillars: (i) cooperation in multilateral fora; and (ii) inter-state cooperation. Cooperation in multilateral fora commenced as early as 2006, and inter-state cooperation was initiated at the second summit in 2010. The initial causes of dissatisfaction related mainly to world economic governance and as such were not dissimilar to the concerns of G20. This broad-based forum for inter-state dialogue includes the current dominant power and its major allies – the EU, Japan, Australia and Canada – as well as major emerging economies and all BRICS members. It would therefore appear that, in its early organisational history, the BRIC adopted a cooperative stance towards the US-led world order, and at the first Summit in 2009, the leaders of the four original member states refrained from setting up mechanisms of integration. This indicates that initially BRIC was little more than a forum for inter-state dialogue and coordination for multilateral fora within the US-dominated world order. However, the subsequent evolution of BRICS has transformed it into a full-fledged international organisation.

The following section studies the BRICS evolution within the context of global governance. The scope of analysis is framed using BRICS Joint Statements,

and the following themes on global governance are then derived:

- (i) development finance
- (ii) BRICS perception of economic liberalisation
- (iii) BRICS perception of the international order

### ***Initial Cooperative Position (2009-2011)***

At the first BRIC summit meeting in Yekaterinburg in 2009, the founding members agreed on three overarching themes for future cooperation. First, they emphasised the need to reform the structures of world economic governance, and in particular, the voting structure of the International Monetary Fund and the World Bank. They also expressed their adherence to WTO and G20. The second theme related to issues of sustainable development, including social responsibility for the poorest countries, environmental protection, climate change, and diversification of energy resources and supply. The first BRIC Statement is largely compatible with the G20 statements of 2008 and 2009.<sup>81</sup> What set BRIC apart from the G20 was the third theme, related to foreign policy and world political governance: BRIC expressed their support for a multipolar world order, “based on the rule of international law, equality, mutual respect, cooperation, coordinated action and collective decision-making of all states.” And whereas the G20 has tended to focus on economic governance and development-related issues,<sup>82</sup> the BRIC agenda also included a demand for a “comprehensive reform of the United Nations.”<sup>83</sup>

The second BRIC Summit, held in Brazil in 2010, produced no substantial changes. However, instead of referring to cooperation with Western powers (under the auspices of G20), the second Joint Statement<sup>84</sup> opened with a strong remark on the changing world order: “We share the perception that the world is undergoing major and swift changes that highlight the need for corresponding transformations in global governance in all relevant areas.” Interestingly, this perception of change is not confined to BRIC's official statements – for instance, a US National Intelligence Council report,<sup>85</sup> declared that “the 'unipolar moment' is over and Pax Americana [...] is fast winding down.” For BRIC, this perception of power legitimised their demand for equal membership in global economic and political governance within a “multipolar, equitable and democratic world order.”<sup>86</sup>

At the same time, there is no evidence in the second Joint Statement of a decline in BRIC's desire to cooperate with the West. Between 2009 and 2010, the most important change in BRIC relations was the initiation of inter-state cooperation, structured as meetings between various state and non-state agents. Participating state authorities included ministers of agriculture and finance, high-ranking security officials, governors of central banks and development banks, and heads of statistical institutions and competition authorities. In addition to this inter-state dialogue, meetings were to be launched between BRIC business groups, think-tanks, and cooperatives.<sup>87</sup> Inter-state dialogue was further extended and an Action Plan was adopted at the third BRICS Summit in 2011, when South Africa had already joined the group. New areas of cooperation included dialogue between health ministers and research on economic and trade issues. With intensified inter-state cooperation, in 2011 the BRICS countries also began to express dissatisfaction with the slow pace of reforms in world economic governance, and at the Summit of the same year, called "for a quick achievement of the targets for reform of the IMF agreed at previous G20 Summits."<sup>88</sup>

The Summit of 2011 signaled an increased dissatisfaction associated with the deepening of inter-state cooperation. Yet in that year, BRICS remained a forum for dialogue, though with increasingly extensive inter-state networks. At that time, BRICS was actively pushing for reforms in both the UN and international financial organisations, but was yet to provide alternatives. This can be interpreted in three ways. According to Drezner,<sup>89</sup> the BRICS were critical but not enough to provide initiatives of their own. A second interpretation follows from the argument that the BRICS are too different to be able to cooperate with one another; they share an antipathy to US dominance but little beyond that to support internal alignment. A third perspective acknowledges that while the BRICS are not a cohesive groups of states, their criticism is not necessarily mere rhetoric but also depends on their willingness and ability to cooperate on a multilateral basis with *equal* footing with the US. Thus it can be argued that the BRICS channel their criticisms to new institutions only on secondary basis when their demands have not been adhered to on the multilateral fora. The founding of the New Development Bank in July 2015 seems to undermine the first two perspectives, while serving as proof of the latter.

### *New Development Bank*

The lack of proper intergovernmental institutions did not forestall BRICS development. At the 2012 Summit, BRICS stated that cooperation among health ministers “should henceforth be institutionalized” in order to address the common concerns of “universal access to health services, access to health technologies, including medicines” (BRICS IV, 2012, 42). More noteworthy is that in 2012, the BRICS countries launched an enquiry into the benefits of a New Development Bank (NDB) “to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging and developing countries.” Finance ministers and central bank governors were also asked to explore the construction of a financial safety net for BRICS through the establishment of a currency reserve: the Contingent Reserve Arrangement (CRA).<sup>90</sup> The NDB commenced business in July 2015, and a Treaty for the establishment of the BRICS CRA also entered into force in 2015. The purpose of CRA is to protect BRICS in the event of any liquidity pressures that might arise in the wake of the persistent sovereign debt crisis and uncertainties in the financial sector of Western economies.<sup>91</sup> In short, BRICS inter-state cooperation has now led to the creation of new inter-state institutions with economic and financial authority, and with the NDB as an international institution.

The rationale behind the NDB can be inferred from the sluggish pace of reform at the IMF. At the UFA Summit in 2015, BRICS leaders declared, “[W]e remain deeply disappointed with the prolonged failure by the United States to ratify the IMF 2010 reform package, which continues to undermine the credibility, legitimacy and effectiveness of the IMF.” Along with World Bank, the IMF has been the key institution of financial world governance – which is the reason for the BRICS to demand their reform. But they have also been dominated by US and other developed countries. In 2015, US' share of IMF voting power was 16.5 percent, and G7 countries accounted for 41.2 percent, while the share of BRICS was at 14.1 percent. Indeed, until the reforms in 2016, developed nations still accounted for about 55 percent of IMF voting power. As the decisionmaking rule in IMF is that of the majority or qualified majority, this implies that the US and other developed countries have so far been able to direct IMF policies. Correspondingly, any developing and emerging country agenda, to be successful, must have the support of at least some of the developed countries.<sup>92</sup>

In the NDB, decisionmaking power is equally divided between the five original member states.<sup>93</sup> NDB then has a more democratic decisionmaking structure for its members. This throws light on BRICS' concept of international democracy: it does not refer to economic size or the size of population, but at least among the BRICS, it means that all members irrespective of their size and power should have an equal vote. Taking into account that China alone accounts for about half of the BRICS economic output, this decisionmaking structure clearly deviates from that of the Bretton Woods institutions. It also implies that NDB will not become a mere financial arm of China. That does not, however, stop the NDB from cooperating with the China-led AIIB, which was planned for at the Ufa Summit.<sup>94</sup>

The NDB is open for all UN members, with the terms and conditions for membership being defined by the Board of Governors with a qualified majority of four original members. Except as otherwise provided for, the voting rule is a simple majority. There is, though, a limit to new members, which guarantees that the NDB remains an institution controlled by the BRICS: the share of voting power of the five original members will not fall below 55 percent of total votes, and the maximum voting power for any new member state is set at seven percent. Consequently, the NDB will remain an international financial institution dominated by the BRICS, and in this regard may be said to be similar to the Bretton Woods bodies, which for their part have been dominated by the developed countries since their inception.<sup>95</sup>

The initial authorised capital of the BRICS Bank is US\$ 100 billion.<sup>96</sup> In comparison, the capital of the International Bank for Reconstruction and Development (of the World Bank group) is US\$ 230 billion. In IMF the total amount of special drawing rights in 2015 was about SDR240 billion, which converts to about US\$ 330 billion. In January 2016 the total amount of SDRs was raised to SDR 477 (about US\$ 659 billion).<sup>97</sup> The size of CRA, for its part, is at US\$ 100 billion. Thus the bank and the CRA are relatively financially strong, and will be even stronger when other emerging countries join the bank. So far, Turkey, Indonesia, and Mexico have already shown interest, as Jayshree Sengupta<sup>98</sup> writes. The financial arm of BRICS is further strengthened if cooperation with AIIB will be realised. BRICS' share of global savings is today larger than the combined share of US, EU and Japan.<sup>99</sup> The NDB is also expected to set the new trend for development financing.<sup>100</sup>

The purpose of the NDB is to channel funding for development and infrastructure projects in emerging and developing countries. As far as rhetoric is involved, therefore, the goal is not any different form that of the IMF and World Bank. Almost 80 percent of World Bank's loans have been directed towards development and infrastructure projects (called 'investment loans'). Myanmar, for instance, launched a project for Ayeyawade river governance and sustainable water usage in 2015 with a WB loan of US\$ 100 million.<sup>101</sup> The remaining 20 percent consists of development loans known for their conditions on policy reforms.<sup>102</sup> According to Williamson,<sup>103</sup> the lending conditions consisted of 10 reforms that the US officials and the Washington-based financial institutions agreed on, including trade liberalisation, cuts in public spending, privatisation, elimination of government subsidies, fiscal austerity, and openness towards Foreign Direct Investment. This Washington Consensus has encountered strong criticism since the 1980s from notable economists like Joseph Stiglitz and Dani Rodrik, with only a few countries, China included, having escaped the reforms. Washington Consensus was the frame from Bretton Woods financial governance and development lending. According to Sarah Babb and Glinanavos, conditionality still lives on—in the way that lending is focused on countries with a strong track record in successfully implementing the conditions tied to the previous loans.<sup>104</sup>

A key question then is: Will the NDB in fact be a source of a different brand of development lending? The founding agreement of the bank does not offer any answers to that question. This paper thus turns to the Policy Brief, 'New Development Bank: Identifying Strategies and Operational Priorities', published by the Observer Research Foundation (ORF) and National Institute of Public Finance and Policy (NIPFP). The paper begins by describing the need for development finance and the gap between discourse on development and the international financial institutions. Indeed, over 650 million people across the world lack access to safe drinking water, over 2.5 billion lack access to decent sanitation, and over a billion live without electricity<sup>105</sup>—all of them defined by the United Nations as nothing less than basic human rights. For human growth and the development of society and economy, equally fundamental are social infrastructure and basic social services, such as education and health care. Economists Joseph Stiglitz and Michel Chossudovsky, however, have argued that conditional lending programs have led to the deterioration of social infrastructure as debtor countries are forced to cut their public spending.<sup>106</sup>



The same ORF-NIPFP Policy Brief said that social infrastructure and basic services, along with energy, should be among the primary areas of NDB finance. This marks an important distinction between the manner in which development policy is framed by the Bretton Woods institutions, and BRICS. BRICS states believe, according to the experts whose views were described in the ORF-NIPFP paper—that "Development finance needs to consider the social return and devise prudential norms accordingly."<sup>107</sup> Further, they called attention to the problem with the 'fiscal austerity' being promoted by the old international financial institutions. Demands for austerity form part of what critics have labelled as supply-side economics and market fundamentalism, and imply that markets is the fundamental source of development. Thus development finance should follow 'sound' economic principles which in turn reflect on the kind of projects that are suitable for development finance.

The BRICS experts also emphasised how fiscal orthodoxy leaves crucial activities with high social returns at the sidelines of development finance. For example, the dominant financial institutions do not regard it their priority to lend to projects involving rural small holders, urban infrastructure, sustainable energy, health and education, and micro enterprises. For the NDB, the BRICS experts said, these projects should be accorded priority. Moreover, they took note of the continued importance of coal-based energy for developing and emerging economies. As the West-led financial institutions become increasingly critical towards coal-based energy, the NDB should contribute to the developing world's transition from inefficient coal-based power to cleaner and more efficient coal-based technologies.<sup>108</sup>

BRICS appears to be building a tool for an alternative development policy through the NDB. The founding of the NDB may be viewed as a reaction to BRICS' rising power in the face of the continued dominance of West-led financial institutions, and the resulting development finance that does not meet the development needs of the South.

### ***Divergent Political Economy?***

How broad then is this seemingly dissenting—even radical—vision for global development policy and financial governance? Does it also extend to other aspects of economic globalisation? The answer would be the affirmative. There are two reasons for this claim.

First, in their post-crisis policies, individual BRICS members seem to have rejected West-led economic and financial policy paradigms.<sup>109</sup> Also, as an entity, BRICS seems to reject these models. From the 2012 Summit onward, all subsequent BRICS summits have expressed concerns about West-led financial and economic policies. Various Summit declarations have noted that the accumulation of sovereign debt and the need for fiscal adjustment in advanced economies creates uncertainties for global growth. Excessive injections of liquidity by Western central banks to the financial sector—through quantitative easings and bailout packages from the US government and the Eurozone Troika—have been characterised by BRICS as spilling over into increased volatility of capital flows and commodity prices. At the same time, the BRICS claim that volatile prices (especially of food and energy) put the recovery of the world economy at risk.<sup>110</sup> Finally, the Sixth Declaration opens by referring to the “inclusive macroeconomic and social policies carried out by our governments,” and proceeds to highlight the contrast between the economic and financial policies of the individual BRICS countries and those of Western economies.<sup>111</sup>

While the unconventional financial policies can also be explained from merely economic rationales—through the adverse effects of capital flows and commodity prices—the latter notions on inclusive macroeconomics and social policies seem to emphasise a 'less-liberal' perspective to economic globalisation.<sup>112</sup> A second reason relates to world trade regime. BRICS are firmly committed to the multilateral framework at WTO with all its safety valves, derogations, exceptions, limited market openings on agriculture, services, public procurement, restricted scope of regulatory cooperation, harmonisation, and the ultimate power of each state to either accept or decline WTO dispute settlement decisions.<sup>113</sup> Developed countries, in contrast, have tried to push further liberalisations first at the WTO and now on the bilateral and plurilateral track. The crucial insight here is that the BRICS appear to give more emphasis to the role of the state in governing and directing economic development, in particular, and markets in general.

Indeed, the prevalence of state-owned enterprises (SOEs) in China, India and Brazil,<sup>114</sup> and the acknowledgement of their “important role” in, for example, the 2014 Summit Declaration<sup>115</sup> suggests that such economic partnerships are less 'liberal' and 'market-oriented' than their Western counterparts. Similarly, research on Chinese and Indian regional trade deals also provides evidence that

while BRICS countries adhere to WTO, they are much less inclined to further liberalise non-trade areas like labour and intellectual property rights, or to address WTO-plus issues like the liberalisation of agriculture, financial services, procurement, and technical barriers to trade.<sup>116</sup> It is thus possible that BRICS would produce new norms for economic cooperation rather than assimilating the more ambitious and market-oriented ones of the West. The focal point of difference is the relation between public and private authority. To affirm these interpretations, however, a consideration of the MRTAs must be made. At the Ufa Summit the BRICS adopted the Strategy for the BRICS Economic Partnership (SEP),<sup>117</sup> which covers eight broad areas of cooperation, extending well beyond tariff and customs issues to include even issues such as regulatory cooperation. In SEP the BRICS “reaffirm the value, centrality and primacy of the multilateral trading system in world trade regulation and their commitment to strengthen the rules-based, transparent, non-discriminatory, open and inclusive multilateral trading system as embodied in the WTO.”<sup>118</sup>

Further, BRICS emphasise the role of macroeconomic and trade policy coordination – that is, state-level cooperation in economic matters – and the need to develop public-private partnership as a mechanism to attract resources for state and private sector cooperation.<sup>119</sup> Within this context, this new initiative can be interpreted as a reflection of BRICS' commitment to cooperate on economic and developmental matters on their terms and within the auspices of the WTO. With regard to Western push for more market-oriented or developed country-led governance of global economy, the BRICS seem to be divergent.

Does this amount to an alternative vision for economic globalisation? With regard to the present trade regime within the WTO context, the answer is the negative. However, the nature of this question is relative to the visions of other stakeholders, that is, the Western visions. With regard to the Western vision as will be show in the following section, the BRICS are being different, but perhaps not too different not to cooperate in the future.

### ***Divergent Foreign Policy?***

NDB is just one initiative of the BRICS, albeit an important one. Indeed, not even economic and financial cooperation encompass the whole spectrum of BRICS cooperation. Since the beginning, the BRICS have demanded reforms of

the UN and increasingly since 2011 the group has taken positions on world conflicts on the basis of its fundamental principles. BRICS' foreign policy is characterised by adherence to the principles of state sovereignty, regional integrity, and non-interference.<sup>120</sup> Another feature is the separation of particular state interests and BRICS positions. In this regard, the BRICS approach to foreign policy is similar to its financial policies: neither China nor Russia can dictate BRICS common positions. This may be interpreted as a lack of internal cohesion, or as a distinct feature of the BRICS cooperation.

In the Concept of the Foreign Policy of the Russian Federation, remarkably strong emphasis is placed on the “partnership of cultures, religions and civilization and harmonious development.”<sup>121</sup> At the same time, Russia warns against imposing “one's own hierarchy of values,” expressing a firm rejection of unilateralism and any destructive use of “human rights concept to exert political pressure on sovereign states.” World order should be based on civilisational partnership, state sovereignty, and non-interference in domestic matters.<sup>122</sup> Instead of a universal direction for the future of globalisation, Russia aspires to a pluralist globalisation that opposes what is perceived as Western universalism. Indeed, according to Mäkinen and Turoma,<sup>123</sup> Russia is undergoing an ideational delinking from Western values and a quest for a Russian identity. The Ukrainian crisis provides an additional prism through which to establish this point. Mearsheimer, for example, writes that Russian geopolitical interests are threatened by the expansion of the liberal West:<sup>124</sup> a liberal Russia would hardly oppose a liberal Ukraine at its borders. These concepts include identity and civilisation, geopolitics and conflicts, sovereignty and cooperation, western values and unilateralism. These concepts resonate with the fundamental values of the BRICS and mark a difference between the Westphalian international order—based on state sovereignty—and the modern (or Western) international order that is based on confederalism,<sup>125</sup> or the yielding of state sovereignty for overlapping supranational authorities.

According to Barry Buzan,<sup>126</sup> China's foreign policy since the economic reforms of 1978 is characterised by (among other things) a desire to achieve a more multipolar and less US-dominated world order, territorial integrity, social stability, and the current political order. In various studies, however,<sup>127</sup> China's adherence to the world trade system has been seen as an indicator of its relations to the global order as a status quo power with much to gain from

cooperation. In his speech to the American public in September 2015, Chinese President Xi Jinping<sup>128</sup> stated that “China will never close its open door to the outside world [and that o]pening up is a basic state policy of China.”

Yet it is questionable whether China's desire to benefit from economic cooperation equates with acceptance of a Western-led world order – which is, after all, much more than just the exchange of goods and services. In other words, can China's strong civilisational identity and its long history as Asia's Middle Kingdom be led to a process of assimilation through economic transactions? That idea is quite in contrast with the revitalised *tianxia* tradition in China, which refers to a tributary system of territorially sovereign states with China as the central power and leader among them.<sup>129</sup> Moreover, not even in Jinping's speech addressed to the Americans can you find any implications on political and economic integration. Instead, Jinping stated that relations between the US and China should be based on cooperation and mutual understanding, not integration. President Jinping also noted that “[I]f China and the US cooperate well, they can become a bedrock of global stability and a booster of world peace.”<sup>130</sup> Finally, van der Pijl's analysis shows that the Chinese Communist Party still retains control over Chinese society, which shows that the commercial ties between 'transnational capitalism' have not transnationalised Chinese political system.<sup>131</sup>

What about India? One authoritative and often quoted perspective on Indian foreign policy was written by an independent group of analysts and policymakers and first presented in 2012 for an audience of current and former National Security Advisers, Foreign Secretaries, Ambassadors and High Commissioners, and policy analysts.<sup>132</sup> The policy report, *Non Alignment 2.0: A foreign and strategic policy for India in the 21st century*, said in part: “India must remain true to its aspiration of creating a new and alternative universality.” The report describes India as the most 'Western' among non-western powers, though rooted in Asia. As such, India is committed to democracy, but does not 'promote' democracy, nor does the country “see it [promotion of democracy] as an ideological concept that serves as a polarizing axis in world politics.” With regard to the US, the report said that “the relative decline of the American alliance system is already evident,” and India should be cautious of unduly close ties with the US while pursuing a policy of 'strategic autonomy'. This does not translate, however, to non-cooperation with the major Western power and in fact, with regard to the assertive China,

cooperation with the US offers a key counter balance.<sup>133</sup> On the other hand, other analysts argue that a defining factor of an Asian Century are the ties between China and India, and not between India and the US.<sup>134</sup>

As a member of BRICS, RIC, NDB, AIIB and soon also of SCO, India does have strong connections and common interests with China and Russia. At the same time, under Prime Minister Narendra Modi's leadership India is working hard to improve connections with the US. In January 2015 Modi and US President Barack Obama issued a Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region with the goal of promoting peace, prosperity and stability in the area. The US and India indeed share an interest in rebalancing against China. A report issued by the Council of Foreign Relations in 2015 emphasises this aspect of India's foreign policy environment and recommends increased ties and future membership in the US-led TPP. Thus while part of the young Eurasian initiatives, India also keeps its doors open for the West. From a strategic perspective, this is viable policy; however, to cooperate with multiple actors and adversaries, a nation would also need to remain non-aligned.

The BRICS principles of independence, sovereignty, and territorial integrity, are all in alignment with the perspectives on Russian, Chinese, and Indian foreign policy, discussed earlier. It has been argued that the BRICS are united more by their opposition to US dominance than by any other common interest.<sup>135</sup> This interpretation fails to take into account that adherence to civilisational pluralism does not preclude disagreement on specific issues such as foreign policy. Civilisational pluralism does, however, obstruct conformity in culture, habits, political systems, and governance. It does not preclude cooperation but it does obstruct or limit supranationalism, confederalism, and conformism in world politics.

The Arab-Israeli, Syrian, and Iranian conflicts will be probed in the ensuing sections to grasp how the aforementioned perspectives and the BRICS principles are reflected on the alliance's positions on these conflicts. These cases are chosen because US interest and positions have been strong in all of them while not a single BRICS country has shown a particular interest. The Ukrainian case, for example, is dear to Russia and BRICS positions on it are thus dampened. At the 2014 and 2015 BRICS Summits, the group expressed their "deep concern with the situation in Ukraine" and emphasised that "there is no military solution to the conflict,"<sup>136</sup> thus avoiding either blaming the US

or supporting Russia's strategic interests. At the earlier 2012 Summit, BRICS urged those involved in the Arab-Israeli conflict to rebuild mutual trust while "avoiding unilateral steps, in particular settlement activity in the Occupied Palestinian Territories." The group also encouraged "broad national dialogue" in Syria and respect for "Syrian independence, territorial integrity and sovereignty," and expressed their support for a peaceful resolution of the Iranian nuclear dispute.<sup>137</sup> By 2013 the language employed by BRICS had become stronger with regard to both the Arab-Israeli conflict and Iranian nuclear dispute. In place of "avoiding unilateral steps," the BRICS countries were "deeply concerned" about Israeli settlement policy, "which is a violation of international law and harmful to the peace process." And rather than expressing support for a peaceful resolution of the Iranian issue, the BRICS expressed their "concern about threats of military actions as well as unilateral sanctions" by the US and its allies.<sup>138</sup>

In both the 2014 and 2015 summits, the BRICS used the words "we oppose" in reference to Israeli settlement policy, which they said "violates international law" and "gravely undermines peace efforts." Thus, the semantics of "deep concern" was replaced with the more active, "to oppose", and "harmful" was replaced with "gravely undermining". In the case of Syria, BRICS avoided taking sides with either the rebels (allegedly supported by the US) or the Syrian government (allegedly supported by Russia). The BRICS position on Iran, on the other hand, has continued to support that country's right to develop a peaceful nuclear capacity, as opposed to lending its voice on the imposition of economic sanctions or military intervention.<sup>139</sup>

Such position on Iran is in stark contrast to that of earlier US administrations. Neoconservative *Time* columnist Charles Krauthammer echoed President George W. Bush in arguing that Iran is dangerous because it is ruled by an unstable government of fundamentalist fanatics, who not only want to destroy Israel but are in pursuit of chaos. Krauthammer argued that chaos and destruction create the conditions for Mahdi to ascend on earth and to lead the rightful Shias to eternal bliss.<sup>140</sup> BRICS, for their part, see no such threat from the Shias. Neither is there mention of Iran's alleged support for what the US government has described as terrorist organisations in the Palestinian territories and Syria. Instead, at the 2014 and 2015 Summits, BRICS expressed support for the establishment of a Middle East zone free of nuclear weapons, implying that Israel's alleged nuclear weapons should be treated in the same



way as Iran's. At the Ufa Summit in 2015, BRICS stated their desire for closer cooperation with SCO and its observer states, including Iran.

BRICS foreign policy statements against Israeli settlements have grown stronger over the years. Some analysts like Guy Burton<sup>141</sup> argue that despite this rhetorical support for the Palestinian cause, little is being done in active support. On Syria, there has been no significant change in rhetoric in official BRICS documents. China and Russia, on the other hand, as permanent members of the Security Council, have vetoed UN operations for the reason that Syrian President Bashar al-Assad has not requested support. US commenced targeted air strikes in the end of 2014 without receiving any request for such from the Syrian government. In the autumn of 2015 Russia joined in, after official request from President Assad. Russian and Chinese positions in the UN and the subsequent Russian intervention can thus be seen to conform with BRICS principles.

Democracy promotion and responsibility to protect (R2P) is another dimension within the theme of sovereignty. BRICS "insist that international law provides tools for achieving international justice, based on principles of good faith and sovereign equality." They "emphasise the need for universal adherence to principle and rules of international law in their interrelation and integrity, discarding the resort to 'double standards' and avoiding placing interest of some countries above some others."<sup>142</sup> At a discursive level it appears that the BRICS regard UN principles such as the R2P as a mere subordinate to the principle of state sovereignty. Further, there seems to exist antipathy towards democracy promotion or the categorisation of states according to their adherence to democratic principles. Russian and Chinese positions on Syria further emphasise this, but also the BRICS statements lend some support to this idea. This is also the interpretation by, for example, Oliver Stuenkel<sup>143</sup> and the expressed opinion of former Indian UN ambassador Hardeep Puri.<sup>144</sup>



## Mega-Regional Trade Deals

In 2010, a year after the first BRIC Summit, the US and 11 Pacific states embarked on negotiations for a comprehensive and ambitious free trade agreement, the Trans-Pacific Partnership (TPP). Some years after, in 2013, negotiations between the EU and US on the Transatlantic Trade and Investment Partnership (TTIP) were launched. The TPP countries constitute the largest export market for US goods and services, representing 44 percent of US goods exports, 85 percent of US agriculture exports, and 27 percent of US private services exports. The combined TPP countries' share of total world GDP is about 40 percent, and the combined EU and US (TTIP) share is nearly 50 percent. Moreover, transatlantic trade accounts for about 30 percent of world trade.<sup>145</sup> Together, TPP and TTIP countries would account for some 60 percent of world GDP while the BRICS' share of total GDP is only 20 percent.<sup>146</sup>

The official objectives of the TPP and TTIP are to boost transatlantic and transpacific trade, increase economic growth, and create new jobs. The instruments for achieving these goals include three different forms of liberalisation. The first cluster relates to issues of market access – that is, the opening of new markets and enhancement of access to existing ones. The second cluster relates to regulatory cooperation and so-called 'non-tariff' barriers to trade. A final group of issues relates to rules and standards. Most of these matters are covered by WTO agreements, but the negotiating parties have expressed their commitment to going beyond these with an ambitious WTO-plus agenda.<sup>147</sup>

This section situates the two trade deals into the context of globalisation. As has been illustrated in earlier sections, BRICS can hardly be interpreted as an alliance for a singular globalisation. Instead, BRICS cooperation appears to

stand for increased plurality. Does the same hold for the two trade deals? To answer this question, the following issues are examined.

- (i) Economic liberalisation
- (ii) Rebalancing of economic power
- (iii) Integration of the West

### ***MRTAs and Economic Liberalisation***

The negotiating parties believe that the opening of new markets in services and procurement is economically promising.<sup>148</sup> Certainly, the services sector is the largest employer in advanced economies while procurement accounts for a significant share of GDP. In the EU, for instance, 16 percent of GDP is accounted for by government procurement.<sup>149</sup> The aim of the negotiating parties is to achieve the most ambitious possible liberalisation of services. In official statements of negotiating objectives, no exclusions are made in indicating that all WTO sectors – health, education, insurance and so on – are on the table (other than those services supplied on a non-commercial basis or non-competitively). With regard to procurement, laws requiring local content (like the Buy American Act) are to be relaxed, and threshold values for international bidding contests are to be lowered.<sup>150</sup>

Along with the opening of new markets, TPP and TTIP tackle a broad range of non-tariff or 'behind the border' barriers. All of these originate in government regulation, for different purposes such as consumer safety and environmental protection. Safety regulations, procedures for safety assessments, quality controls and licensing impose preconditions for market access that must be met, thus creating costs for companies. Different sets of regulatory systems impose additional costs through multiple sets of requirements, thus multiplying the administrative costs. While these issues are covered by WTO agreements they are also subject to safeguards and exceptions. For example, the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) has not prevented a battle between the EU and the US at the WTO's dispute settlement body over the safety of genetically modified foods and pathogen treatments.<sup>151</sup>

The WTO-plus agenda includes mechanisms to help overcome such long-standing disputes both in old and new issues, aside from reducing the cost for

doing business.<sup>152</sup> The mechanisms include regulatory cooperation, harmonisation, mutual recognition, promoting common standards, promoting international standards, exchange of information on upcoming regulatory changes, and ensuring that these reforms do not build new trade barriers. Due to the open-ended character of regulatory cooperation (in contrast to a fixed set of rules), negotiating parties speak of 'living agreements'.<sup>153</sup>

For the purpose of regulatory cooperation, TPP includes 16 regulatory committees and a TPP Commission. Committees are responsible for ensuring that cooperation takes place, obligations of the agreement are followed, and that information on new potential obstacles and areas for integration are mediated to the TPP Commission. As an intergovernmental body, TPP Commission has the ultimate right to decide upon new and upcoming changes, to supervise and to oversee the implementation of the agreement. TPP Commission does not, however, function as a dispute settlement body. Both state-to-state disputes and investor-state disputes are separated from the inter-governmental authority of TPP Commission. Compared to WTO, this is significant difference in the governance structure of the new MRTA. It is also proposed to be part of the TTIP agreement.<sup>154</sup> Table 3 lists the different regulatory bodies of the TPP.

**Table 3: Regulatory bodies in Trans-Pacific Partnership**

Name of the Regulatory Body	Article no
1. Trans-Pacific Partnership Commission	Article 27.1
2. Committee on Trade in Goods	Article 2.17
3. Committee on Rules of Origin and Origin Procedures	Article 3.32
4. Committee on Textile and Apparel Trade Matters	Article 4.8
5. Committee on Sanitary and Phytosanitary Measures	Article 7.5
6. Committee on Technical Barriers to Trade	Article 8.11
7. Committee on Financial Service	Article 11.19
8. Committee on Temporary Entry for Business Persons	Article 12.7
9. Committee on Telecommunications	Article 13.26
10. Committee on Government Procurement	Article 15.23
11. Committee on State-Owned Enterprises and Designated Monopolies	Article 17.12
12. Environment Committee and Contact Points	Article 20.19
13. Committee on Cooperation and Capacity Building	Article 21.4
14. Committee on Competitiveness and Business Facilitation	Article 22.2
15. Committee on Development	Article 23.7
16. Committee on SMEs	Article 24.2
17. Committee on Regulatory Coherence	Article 25.6

Source: TPP

TPP and TTIP also address non-trade issues that include intellectual property rights (IPRs) and labour and environmental standards.<sup>155</sup> IPRs encompass controversial issues like pharmaceutical patents and rules on generic drugs as well as the illicit distribution of software and other copyrighted material on the Internet. A framework agreement for IP already exists within the WTO, but even here, there is scope and willingness to go further.<sup>156</sup> For example, De Micco<sup>157</sup> argues that, in the EU alone, nearly 200,000 jobs were lost in 2008 due to copyright infringements. In line with the ACTA agreement<sup>158</sup> there is an interest to increase the possibilities to control and inhibit criminal use of copyrighted material on the net. Secondly, TPP includes US provisions on the patentability of new uses of known substances and extension of the patent protection time. While this benefits patent holders and the research and development (R & D) sector, it weakens the competitive advantages of the generics industry—something which, in a country like India, brings immense benefits to the poor majority.

Labour standards such as the right to union membership are an extra-WTO issue. According to Bhagwati et al.,<sup>159</sup> China, India, and Brazil have strictly opposed further inclusion of non-trade issues within the WTO. The necessity to develop and raise not only labour and environmental standards but also other regulatory standards appears to be widely accepted among industries, as well as a section of analysts, for example, Indian think-tanks. The reason for opposing their inclusion in the current trade regime is rather based on timing. Standards will be raised with the due order along with economic development. If imposed now, these analysts contend, these regulations threaten to inhibit economic development by posing additional costs for domestic industries. From the perspective of a developing country, non-trade issues and higher regulatory standards can be seen as mercantilist measures.<sup>160</sup>

### ***Moving Beyond the WTO***

TPP and TTIP build on the WTO which itself is the result of multilateral trade negotiations. It emerged from the political battles of the Uruguay Round, with no single country—not even the US—having been able to dictate the results and with most countries conceding to different levels of liberalisation. Like IMF and World Bank, WTO is one of the three core institution of global economic governance. But unlike with the IMF and World Bank, the decisionmaking at the WTO is based on consensus. It can be seen both as an

acknowledgement of and safeguard for the diverse political perceptions, interests and needs concerning the scope and depth of global trade system among the members of the organisation.<sup>161</sup> WTO was born incomplete in many ways. The Agreement Establishing the World Trade Organisation entering in force in 1995 likely encapsulates more trade-related issues than anyone can conceive of as being such. Yet alongside the ambitious multilateral agreements, WTO legal texts comprise less ambitious and varying national agreements (country-specific concessions/ commitments). Moreover, various arrangements were put in place to protect interests other than trade through safeguards and exceptions, and developed countries were granted special treatment.<sup>162</sup>

Liberalisation of services very well illustrates this gap between general objectives and outcomes. Only 39 percent of the signatories of the General Agreement on Services (GATS) liberalised services in health care, social services and education. Table 4 shows that in spite of an extensive coverage on the level of the general agreement, the actual coverage of services liberalisation at the national level was modest.

**Table 4: GATS Scheduled Commitments by sector**

Services sector	Number of Commitments	Commitments as share of signatory states (n=150)
Business Services	116	77%
Communication Services	113	75%
Construction and Related Engineering Services	87	58%
Distribution Services	65	43%
Educational Services	59	39%
Environmental Services	67	45%
Financial Services	121	81%
Health Related and Social Services	58	39%
Tourism and Travel Services	141	94%
Recreational, Cultural and Sporting Services	72	48%
Transport Services	97	65%
Other Services	10	7%

Source: WTO 2015: GATS Schedules

Government procurement (GP) further illustrates the partial success of WTO. The plurilateral agreement on GP was not even signed by all WTO members – not even as a general framework agreement to which they could make specific concessions and derogations. Even within advanced countries (EU and US included) GP remains protected to this day and regulations relating to local content and high threshold values for international bidding contests continue

to inhibit competition.<sup>163</sup> Opening of new markets through services and GP is one key element of the Western MRTAs. It is part of the broader trade policy goal of going beyond and expanding the existing level of liberalisation in the WTO and other bilateral or regional trade agreements.

This WTO-plus approach in TPP and TTIP means ambitious trade opening through increased market access, regulatory cooperation, reduction of non-tariff barriers, and the establishment of new rules and standards.<sup>164</sup> To this end, negotiating parties will have to yield portions of their sovereignty in favor of common rules. This happens in all international agreements that are implemented as binding international law. In WTO, however, the intergovernmental nature of WTO's highest decisionmaking bodies (i.e., the Ministerial Conference and the WTO Council), imply that ultimately the states have retained their right even not to abide with their own commitments. (In practice that right is not exercised, because common rules and predictability have generally proved useful.)

Common rules can be seen as a precondition of an orderly social interaction and indeed that is one of the corner stones in for instance Hobbesian theory of social contract. Any type of common rules will suffice for *orderly* social interaction, but for certain types of interaction, only a certain type of rules will do. Interactions between vendors and consumers often involve asymmetry of information, and this type of social interaction requires a mechanism to protect the consumer from risky products, placebos or surcharges. This is accomplished through regulation.

Not all regulation is always beneficial. For export companies different types and levels of regulation between different countries will likely seem more of a cost than benefit. Excessive regulation is an unnecessary cost for most people, and unnecessary regulation is both about costs for people and obstacles for their interaction. It is thus useful to promote international regulatory cooperation along with dismantling of unnecessary regulation on all levels of governance. This is what the MRTAs attempt to do. Their objective is to lessen the burdens that regulation sometimes causes on companies through strengthening market-oriented framework for regulation.

Moreover, the two MRTAs subject the new expanded regulatory framework to investor-state dispute settlement process and the oversight of interstate

regulatory bureaucracy (through regulatory cooperation, see Table 3). This is politically sensitive. High safety regulations always imply relatively high costs for companies arising from, for example, more costly safety assessments. At the same time, high safety regulation protects consumers and environment from risks. Sometimes what is cost for somebody can be a benefit for another, and vice versa. How then to reconcile the two perspectives? In democracies, this is usually done through some forms of democratic processes and political battles.

The politics of, for instance, safety regulation is merely about the acceptable level of risks. For companies the cheapest option may sometimes be the most risky for consumers. And for consumers the best option may sometimes be the one without any risks. For this reason, TTIP and TPP have raised extensive debates and opposition even within the West. In the EU over three million citizens have signed a petition calling for a stop in the ongoing negotiations between the transatlantic federations. This is also a significant issue for the BRICS. If the BRICS indeed are divergent in terms of political economy, as suggested above and as indicated by the CREP as a less ambitious trade agreement, then the question of scope and regulatory depth in the MRTAs relates to the scope and depth of economic globalisation.

Developed countries attempted to push a relatively ambitious agenda during the Doha Round. At the Cancún Ministerial conference they tried to incorporate the so-called Singapore issues inherited from the Singapore Ministerial Conference in 1996 to the Doha Agenda. These 'Singapore issues' were particularly dear to the EU, South Korea, Japan and US, consisting of four issues: investments, competitions, transparency in public procurement, and trade facilitation. The Doha agenda also included expanding services commitments and tariff concessions, market access for agricultural products, stricter rules of subsidies, and exceptions (trade distortions).<sup>165</sup>

According to, for example, Kristen Hopewell a key instrumental reason for why the Cancún Ministerial failed was because India and Brazil rose to lead the developed countries against the developed country agenda. One of the key issues employed by the developing country alliance was related to the Western agricultural subsidies. Why would the developing and emerging countries subject themselves to stronger developed country competition when their own agriculture had to compete with subsidised western products? This was one

edge of the critique leading to the closing of the Cancún Conference, even before all the issues on the agenda had been laid on the table.<sup>166</sup> Agriculture was and continues to be particularly important for India with agricultural employment accounting for about 50 percent of the total and because of the high poverty rates among that section of population. The MRTAs are now realising an even more ambitious agenda than that of the Doha Round at the mega-regional level. Indeed, in the aftermath of the stalled Doha Round, US trade representatives Robert Zoellick and Susan Schwab were quoted as saying, “We are perfectly capable of moving ahead on the bilateral track.”<sup>167</sup>

**Table 5: TPP and the controversial WTO issues**

Trans-Pacific Partnership (TPP)	Singapore issues and WTO+	Non-Trade issues	Tariffs	Non-traiff measures
1. Initial Provisions and General Definitions	-	-	-	x
2. National Treatment and Market Access for Goods	WTO+	-	x	-
3. Rules of Origin and Origin Procedures	WTO+	-	-	x
4. Textiles and Apparel	WTO+	-	-	x
5. Customs Administration and Trade Facilitation	SI	-	-	x
6. Trade Remedies	-	-	-	x
7. Sanitary and Phytosanitary Measures	WTO+	-	-	x
8. Technical Barriers to Trade	WTO+	-	-	x
9. Investment	SI	-	-	x
10. Cross-Border Trade in Services	WTO+	-	-	x
11. Financial Services	WTO+	-	-	x
12. Temporary Entry for Business Persons	-	-	-	x
13. Telecommunications	-	-	-	x
14. Electronic Commerce	-	-	-	x
15. Government Procurement	SI	-	-	x
16. Competition Policy	SI	-	-	x
17. State-Owned Enterprises and Designated Monopolies	-	-	-	x
18. Intellectual Property	WTO+	-	-	x
19. Labour	-	x	-	x
20. Environment	-	x	-	x
21. Cooperation and Capacity Building	-	-	-	x
22. Competitiveness and Business Facilitation	-	-	-	x
23. Development	-	x	-	x
24. Small and Medium-Sized Enterprises	-	-	-	x
25. Regulatory Coherence	-	x	-	x
26. Transparency and Anti-Corruption	-	-	-	x
27. Administrative and Institutional Provisions	-	-	-	x
28. Dispute Settlement	-	-	-	x
29. Exceptions and General Provisions	-	-	-	x
30. Final Provisions	-	-	-	x

Source: TPP; CETA; WTO Agreement; Capling & Ravenhill 2011; Bhagwati et al. 2015.



Table 5 provides a synthesis of the ambitious trade agenda in TPP compared to WTO. Each of the four columns shows the relation of TPP to WTO in the given typology. The first column shows which TPP chapters include either some of the Singapore issues or include WTO plus provisions. The second column shows which of the TPP chapters represent non-trade issues that have not been part of WTO trade agreements. The third column shows which of the chapters relate to tariffs and, finally, the fourth column stands for the general typology of non-tariff issues – showing that TPP is mostly about something else than reduction of tariffs.

### ***Rebalancing Power Shifts?***

The economic gains from integration<sup>168</sup> are likely to increase the relative gains of the new mega-regional economic area in contrast to BRICS. But will they be enough to seriously affect the ongoing power transitions? Some estimates of the size of economic rebalancing have already been made. According to an influential study, commissioned by the European Commission on the economic impacts of TTIP, the EU's GDP gains would be about 0.48 percent up to 2027, with total US GDP growth of 0.39 percent against the same benchmark. The estimated spillover effect for the rest of the world would be 0.14 percent during the same period, with China and India experiencing additional growth of 0.04 percent and 0.03 percent, respectively. As used by the EU and US to evaluate economic gains, this study suggests greater benefits for the contracting parties,<sup>169</sup> although the significance of economic gains and the potential rebalancing appears minor.

Another study of the economic impact of both TTIP and TPP, conducted by Chinese economists and employing the same Computable General Equilibrium Analysis, indicated negative effects on China and India's GDP, with estimated decline of 0.075 percent and 0.03 percent, respectively. Negative gains were also forecast for all non-member states, leading to the conclusion that rebalancing is the first US aim for the two MRTAs, especially TPP. China's losses would derive mainly from decreasing exports.<sup>170</sup> In a similar manner, recent estimates on TPP by Petri and Plummer<sup>171</sup> suggest that both China and India will likely experience minor GDP losses (0.1 percent) under the baseline projections by 2030.

While estimates on the MRTAs indicate minor impacts on power shifts, none of them suggests its reversal. The estimate by Petri and Plummer, for example,

sets China as the number one economy in 2030 with the US, the EU and India as second, third and fourth, respectively.

According to Subramanian,<sup>172</sup> lowering barriers between American, Asian, and European markets will increase the comparative advantage for companies within the trading bloc, with a corresponding decline in the BRICS' competitive position globally. The effect would extend to a broad range of market access and non-tariff issues such as technical barriers to trade (TBT) (e.g., regulation of chemicals) or food and animal safety (SPS) regulations. The size of the effect will depend on the level of ambition of the MRTAs.

In addition, the inclusion of labour and environmental standards and stricter IP rules and the requirement to conform to them, would impose direct costs for outsiders whose norms on these areas are lower (including BRICS). What will happen, for instance, if the Chinese Export Processing Zones will have to conform to US labor and environmental standards? The costs of production in China will rise.<sup>173</sup> Hitting the rising powers in this manner through the TPP does not however seem likely. In the environmental chapter of the TPP there is no mention of conformity assessments for foreign imports. Neither does such exist in the labour chapter.

However, and perhaps to ease the concerns over further outsourcing of American jobs, the labour chapter of the TPP in US Trade Representative's webpage commences with an introductory section where the text reads: "TPP signatories commit to take on a number of first-ever commitments [including][s]pecial commitments to protect labor standards in export processing zones (EPZs)". The "commitments" as they read in the legal text seem to be more of voluntary than legally binding character. They also seem to be limited to only one commitment: "[e]ach Party shall also discourage, through initiatives it considers appropriate, the importation of goods from other sources produced in whole or in part by forced or compulsory labour, including forced or compulsory child labour." Thus it appears that the likely impact of TPP labour chapter and the effect of the other non-trade issues is ambitious only on the rhetorical level but much less so in practice.

What about the other non-tariff issues? On the condition that the signatories of both MRTAs can overcome their regulatory differences (particularly TBT and SPS issues) and achieve a high level of ambition, they will be able to impose

significant additional cost for foreign imports. That will require all foreign imports to be subjected to "conformity assessments to determine the acceptability of their product standards," as Singh<sup>174</sup> argues being concerned with how Indian exporters will fare in TPP -era. From this perspective, BRICS opposition to the introduction of "exclusive and discriminatory clauses and standards" with regional trade agreements<sup>175</sup> is understandable.

On the other hand, exports already have to comply with high rules in both US and the EU. The transatlantic powers are not negotiating a regulatory agreement to increase the level of regulation in the transatlantic market but to bring down the costs of different standards and obstruct the formation of trade barriers in future lawmaking processes. The standards will likely rise only in the minor TPP – states. This limits the controversial effect on, for instance, Indian exports to those product lines that are not exported to US – which country accounts for over 50 percent of Indian exports to TPP-member countries.<sup>176</sup> Indeed, it can be argued that in all cases where one product is exported to for instance Vietnam and US, TPP will more likely decrease the costs for the exporters – as the costs of having to comply with two systems ceases to exist.

In the end it would seem that the MRTAs offer little hope for the West to increase the costs of production for 'the Rest'. Some costs may arise but nothing substantial (and anything that would matter for economic power shifts). It is, however, possible to further elaborate on the impact of "ease of doing business" in the emerging Western trade bloc(s). In other words, will the MRTAs have any effect on the outsourcing of Western productive forces, capital and investments, to the global south? Increasing comparative advantages for operating within the area of MRTAs (and conformity assessment for imports) may have some influence on the choices that the Western corporations make when choosing the destiny of their investments, setting up a production site, or contracting a company from for example China. As US 'merchants' are not directly interested in the predominance of US, they have wholeheartedly brought their money to the export processing zones of the global south – leading to the buildup of US trade deficits particularly but not exclusively with China.<sup>177</sup> The US and EU can have some influence on the outsourcing through cutting the economic gains of manufacturing in the EPZs and increasing the gains of manufacturing in the US and the EU. Moreover, if the EU structural reforms undertaken in response to the Euro zone sovereign debt crisis are

successfully implemented, it is likely that labour markets and other structures will become more flexible even in the EU. This increases Western competitiveness and the ease of doing business in the EU. Increased relative gains through the MRTAs and 'third-worldisation' of the North can thus be seen as factors that contribute to what US President Obama envisioned in his State of the Union Speech in January 2015: the return of investors from Asia.

Classical economist Adam Smith<sup>178</sup> wrote that "it is in a great measure indifferent to him [a merchant] from what place he carries on his trade; and a very trifling disgust will make him remove his capital, and together with it, all the industry which it supports, from one country to another." Through the MRTAs and third-worldisation, Western states can provide impetus for Western capital to move back from Asia. Whether this impetus will result in anything but marginal effects is beyond the scope of this study. The existing economic estimates on the MRTAs have not studied the mutually enforcing relation between trade liberalisation and third-worldisation.

Based on this short review of the econometric estimations and the above analysis it seems now time to conclude that the US MRTAs are not meant to reverse the ongoing economic power shift. It does not seem very likely that the MRTAs will even have any substantial effect on it. Some economic gains are nevertheless possible (but little suggests that the gains would trickle-down to larger segments of Western societies<sup>179</sup>). Particularly in Europe the ongoing crisis and strong civil society criticism looms as an unfriendly shadow over the TTIP negotiations.

If not rebalancing, then what? This paper already presented a comparison of the scope of TPP with the WTO in addition to some key considerations on the Western trade agenda in during the Doha Round. Taken these two considerations together implies, as the two US trade representatives described above seem to confirm, that the West is aspiring to set the rules of global trade system. Because of the size of the two Western MRTAs the rules and standards of the MRTAs will apply for a major part of world trade. The likelihood of them becoming de facto global rules and standards is thus increased. The international prevalence of MRTA trade regime is also likely to enhance the negotiating power of the developed countries in the WTO – and to suppress developing country opposition (India included).

Unlike the thesis of rebalancing, this idea can be further elaborated and strengthened. One way is to look at trade volumes per trade bloc. Table 6 compares the US MRTAs with the China-centric RCEP. As illustrated in the table, TPP and TTIP countries account for over 40 percent of the world's imports in merchandise goods and commercial services. RCEP countries share of world trade, on the other hand, was less than 30 percent in 2014. About one-third of RCEP share is made up by countries who also are TPP members – thus adopting the 'Western' standards. Similarly, almost 40 percent of China's exports go to the US, the EU and Japan. In the same manner, almost 30 percent of Indian exports go to either the US or the EU.<sup>180</sup> Major part of world trade along with for instance the exports of China and India thus has to follow the new rules anyway. In this sense the MRTAs will provide a de facto global standard.

**Table 6: Trade Blocs' Share in World total Trade**

Country Name	Merchandise trade		Comercial services trade	
	Exports	Imports	Exports	Imports
RCEP	28,95	27,66	20,66	25,49
Members of both RCEP and TPP	9,33	9,58	8,44	9,77
TPP and TTIP	38,04	42,17	51,06	42,64

Source: WTO 2015

A theoretical argument in favor of globalising the Western trade rules derives from the so-called 'Brussels effect' which was introduced in Section III. The idea is that companies have an incentive to lobby for the Western trade rules in their home countries or in the countries where they operate. Doing this, they would gain easier access to global values chains and decrease the cost of conforming to duplicate standards. Corporate interests of this type would align with the interests of developed country regulators and trade officials willing to promote their trade rules. Not even the RCEP is free from these dual drives. Indeed, some countries with strong regulatory capacity like Japan and Australia are members of both the RCEP and the TPP.<sup>181</sup>

Finally, the Western capital still retains predominant position in the control of international trade. According to a report from the United Nations Conference on Trade and Development (UNCTAD), some 80 percent of world trade is linked to global value chains managed by transnational companies (TNCs). The so-called 'lead firms' occupying the top rungs of the value chains are still predominantly Western companies.<sup>182</sup> Moreover, a Swiss study on the control of

transnational corporations “finds that only 737 top holders accumulate 80% of the control over the value of all TNCs”, with top holders referring to the institutional shareholding, i.e., other TNCs. The 50 top holders include only one Chinese company and it is the last of them, while most others are either American, German or British companies (and more often than not, financial companies).<sup>183</sup>

### *Integration Of The West*

Trade is about economic integration. It can also conduce to political integration, which is the object of the following short examination. One way to approach integration is through state-market relations. New market access in services and procurement modifies these relations in favour of the markets. Expanding competition to formerly state-dominated areas increases the tendency towards conformity in systems of political economy within the MRTAs. This widens the operational networks of capital, further accelerating the process of norm diffusion and socialisation. This process is generally linked to integration by Marxist and liberal analysts alike.<sup>184</sup>

The major reason for the thesis of political consolidation of a dominant bloc, however, relates to regulatory cooperation – specifically, to its inherent political dimension. The proposed instruments of regulatory cooperation include harmonisation, mutual recognition (i.e., treating other members' regulations as equivalent to national regulations), coordination among regulatory authorities, and a new institution to oversee the process. This proposed new institution will play the essential role of preventing new regulatory disconformities in national legislative processes.<sup>185</sup>

This level of cooperation qualifies as what Bela Balassa<sup>186</sup> defined as 'positive integration' and what Daniel Elazar<sup>187</sup> termed a 'confederate arrangement'. According to Balassa, positive integration is not confined to issues of tariffs and trade but is open-ended, with potential for further evolution. The proposed new institution and the classification of the MRTAs by the negotiating parties as 'living agreements' imply just this. Depending on the scope and political impact of the new regulatory institution, the commonly acknowledged problem of democratic accountability in international governance may intensify. As strong federal democracies, citizens of EU and US may demand creation of new supranational institution of political governance, which indeed would echo the history of European integration.

Transatlantic federalism is certainly not a new idea, with its roots going back to before the Second World War. Before the outbreak of WWII, Clarence Streit<sup>188</sup> propagated for a union of North Atlantic democracies to balance the Nazi threat and the Communism of the USSR. The Atlantic Union Committee (the predecessor of the NATO Parliamentary Assembly) was founded in 1949, and the Atlantic Council of 1961. Atlantic union was also advocated by eminent statesmen such as Jean Monnet.<sup>189</sup> In 1962, then US President J.F. Kennedy<sup>190</sup> declared,

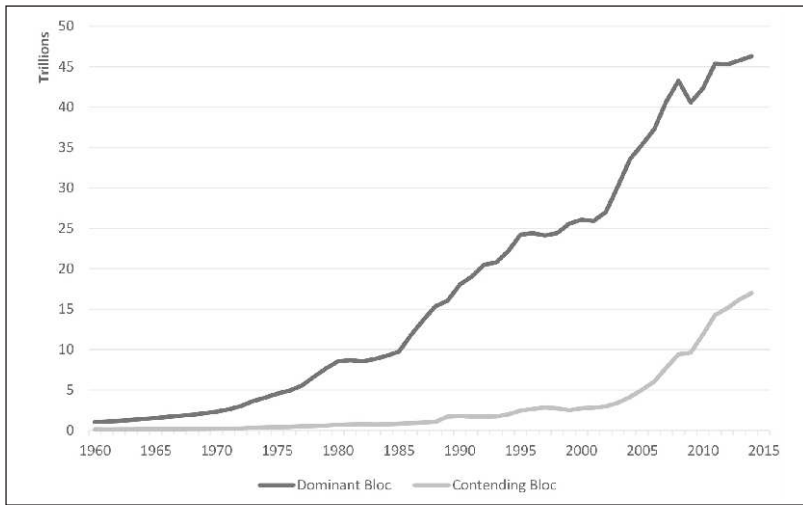
I will say here and now, on this Day of Independence, that the United States will be ready for a Declaration of Interdependence, that we will be prepared to discuss with a united Europe the ways and means of forming a concrete Atlantic partnership, a mutually beneficial partnership between the new union now emerging in Europe and the old American Union founded here 175 years ago.

The TPP and TTIP can thus be considered as a means to promote deep economic integration and political consolidation of the West. In the context of 21st century regionalism this development is not insignificant. It may lend further political strength to other Western organisations like NATO and increase the unanimity of the Western powers in for example UN. In the worst case scenario a more unified West is less prone to cooperate with the 'Rest', to respect 'the other' in situations like the Ukrainian crisis, or to hear the legitimate demands and concerns of the developing world in, for example, climate negotiations. Shortly, a more unified West may be less of a negotiating party and more of a bully – with a false sense of power and influence.

This section ends with a final consideration: What would the extreme result of political consolidation of the West mean for the world order? In the hypothetical scenario that MRTAs will create a politically consolidated bloc, the West will without a question form the dominant bloc. From power transition perspective a politically consolidated bloc can effectively govern the combined economic (and other) resources of its member states. The Figures 5 and 6 provide an illustration of the GDP as a measure of power relations between two hypothetical blocs: the dominant bloc (the members of the Western MRTAs) and the contending bloc (the BRICS). Currently the 'dominant bloc' accounts for over 60 percent of world economic output. The share of 'contending bloc' is at about 20 percent.

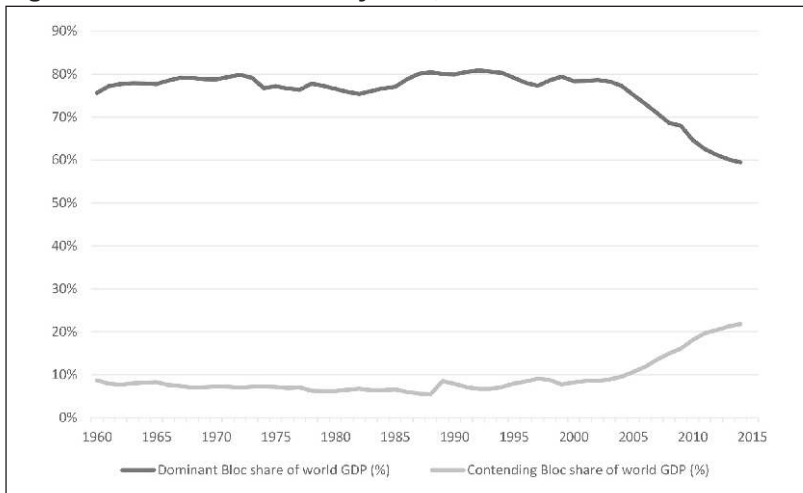
In this hypothetical case the West would have all the means to define world order as it pleases. The West would have all the means to subject the Rest, and to socialise and educate other great civilisations to cease to exist as others and great. The destiny of the Rest would be dying as part of the West. Luckily these considerations are too speculative that they can be considered material for science-fiction.

**Figure 5: Real GDP by bloc, 1960-2014.**



Source: World Bank

**Figure 6: World GDP share by bloc, 1960–2014.**



Source: World Bank



## Battle for Globalisations?

### *Research Setting*

**R**esearch is always founded on certain premises, which relate to an understanding of the 'what is out there' and 'what can be known of it', i.e., the ontological and epistemological perceptions of reality and knowledge. By employing a given theory, a researcher chooses to build on certain premises and thus contribute to current understandings of the world from the ontological and epistemological underpinnings of that theory.

In a similar manner, this paper was built on a premise: the idea that globalisation may be in a process of diversification or disintegration and conflict. This idea however was founded not so much embracing former conceptualisations of globalisation and world order but more on combining former understanding with new observations with an attempt to open minded reflection.

Thus, this monograph opened with an exposition of a new phenomenon in global politics. Sections II, III and IV provided a short description of that phenomenon. It has at least two mutually enforcing dimensions – regionalism and power shifts. Section II commenced with an introduction of Robert Baldwin's concept of '21st century regionalism', which was further expanded and contrasted with the former concept of 'new regionalism' of the 1990s. Section III reviewed the ongoing debates on the two dimensions of the new phenomenon, and section IV focused on power shifts which was framed with a Western theoretical perspective (Power Transition theory).

Through a process of contextualisation, literature review, and comparative analysis of empirical data, these preliminary sections showed that a) transformation of the current global order is an ongoing process, and b) the old concept and perspectives may not suffice to understand it. Based on this work, the paper argued that '21st century regionalism' not only is a broader matter of global transformations but also that unlike 'new regionalism' the '21st century regionalism' no longer is clearly conducive to and assertive of global governance. In this manner a hypothesis was formed:

- Battle for Globalisations

With the concept, 'battle for globalisations', this paper refers to two conflicting interpretations of change. Firstly, the new phenomenon is about increasing multiplicity for political economy and development emerging from within for example the BRICS. On one hand, the new phenomenon can be seen as an emergence of non-conforming and competing processes of globalisation that enforce the new balance of power between US (and EU), on the other hand, and the Eurasian trio on the other. The two hypotheses that correspond to these two perspectives are:

- H1 - Battle for a Singular Globalisation
- H2 - Battle for Plural Globalisations

The second part of this study focused on two case studies as evidence, BRICS and US MRTAs, TPP and TTIP. The most important BRICS Joint Statements were read from the perspective that was developed in the first section. The result was localisation of three specific areas of potential battlegrounds for globalisation(s). Firstly, the recently launched New Development Bank reflects battles for a more plural conception and financing of development. The other two areas were BRICS political economy and foreign policy perspectives, where this study relied strongly upon framed literature review.

In analysis this enquiry operated with framed textual analysis and comparative analysis. With framed textual analysis the study referred to the process of using a frame as the lens through which the object of study, in this case BRICS documents and previous literature, is observed and organised. The frame in

question was developed in the first part of this paper and explicated in the two hypothesis.

In similar manner the enquiry into TPP and TTIP relied partly on framed literature review, partly on comparative analysis, partly on logical interpretation of TPP text, and partly on analysing some descriptive quantitative data through operationalising H1.

### ***Results***

The results of this paper can be divided into two categories. First category relates to the two case studies and second to the broader applicability and theoretical implications of the findings.

In the case of BRICS this paper can maintain the H2. It appears that BRICS is a bloc of states which stand for and have launched initiatives for plural globalisations, i.e., which complement the existing organisations of global governance. In the case of US MRTAs, on the other hand, the H1 can be maintained. The MRTAs appear to be an attempt by the Western powers to globalise Western country trade regime. In this sense Baldwin's conceptualisation of 21st century regionalism is accurate, although it does not account for the change in regionalism of which BRICS is an example of. Moreover, the BRICS and the US MRTAs are not directly opposing each other albeit US Mega-Regional Trade Policy may collide with BRICS political economy perceptions. To study that particular question, research could focus on foreign trade perceptions of the BRICS, conceptualisations among the BRICS on state-market relations, and the ownership structure of the BRICS companies. This paper reviewed some previous literature on this subject which, however, do not reflect the effects of the process of change that the MRTAs are causing.

The overall finding of this study suggest, that the change in world order is bringing more complexity and less conformity, which does not necessarily mean less cooperation and more conflicts. The reason may reside in the distinct civilisational nature of most of the BRICS and the resulting possibility to conceive of chaos not as destructive anarchy but a creative force – which idea would resemble the 'creative chaos' of atomic particles in fusion reaction (e.g., sun). At the theoretical level, this paper implies that BRICS bloc may challenge

Western integration theories and idea that federal idea of global governance. More specifically, BRICS is a heterogeneous bloc, state sovereignty is its key value, various conflicts divide individual BRICS members, but it still can find common ground for launching constructive global action. Moreover, this paper supports the prevalent idea that state-centric analysis leaves out key explanatory factors of global order, and that there is a gap in research on the ownership of TNCs and their control on world trade. The world's biggest publicly traded company is a Chinese bank, with the People's Republic as a majority shareholder.

### ***Final Elaborations***

A key insight with regard to BRICS is that it is an evolving process. Its member states are by far unitary, and important strategic and territorial cleavage points exist within its three most powerful members. Within the context of global governance, however, the strategic and territorial differences do not appear to obstruct cooperation. NDB is perhaps the best case of this. It appears that NDB is an instrument to reconfigure the previous development finance but it can also affect global financial governance of the world.

Does this amount to a battle for globalisations? The understanding of the authors is that while the NDB does seem to reject the development policy of the Bretton Woods system, it is likely to become a complementary institution as well as a source for complementary development policy. Now that IMF has granted China a larger share in SDR it appears likely that through the political leverage of both the NDB and AIIB, the emerging powers could gain a stronger role even in the dominant institutions of global financial governance.

The political economy of the three major BRICS countries shows some semblance of divergence. Nevertheless, the cleavage points are not directly related to global economic governance (of economic globalisation) and do not indicate that BRICS would aspire for a conflicting type of economic globalisation. At the same time, one could argue that divergences in the three major BRICS countries stand as reason for negotiating a Regional Comprehensive Economic Agreement – a trade agreement that some analysts refer to as being of “low quality”. Compared to Western MRTAs, this would represent diversification of regional trade rules, but not disintegration of global trade.

Moreover, some Indian experts view RCEP as a means to advance—slowly—within the current trade regime. Development of trade rules in slow motion would be necessary because of the high costs involved in a rapid upgrading of regulatory standards including, for instance, labour laws. From this perspective, and as far as India is concerned, political economy divergence is rather a matter of development rather than divergent perceptions of the overall benefits of trade (in the long run). Similarly, China has already expressed its desire to join TPP.<sup>191</sup>

Besides development finance, foreign policy statements by the BRICS stands as evidence for some disagreement concerning the fundamental values of democracy and human rights. More specifically, BRICS perception of national integrity and state sovereignty collide with promotion of democracy and military interventions as part of R2P. Only Russia and China, however, have actively engaged in countering these policies. Nevertheless, this critical stance does not mount up to a battle for globalisations. Instead, with the rising influence of the BRICS and SCO there may be a more balanced discussion on the premises of R2P and democracy promotion.

From the perspective of power transition theory, the MRTAs can be conceived of as means to create a stronger alliance system around the dominant power. There are two dimensions to this perspective: economic rebalancing and political integration. From this perspective, the creation of a marketplace that accounts for about 60 percent of world trade can arguably be presented as such a measure.

The actual effects of rebalancing economic power shifts, however, seem to be of a minor scale. The mechanism is, firstly, the increased efficiency within the MRTAs and secondly, the rising cost of at least certain imports from the BRICS to the MRTA areas. Together, these mechanisms increase the comparative advantages of the MRTA members and, correspondingly, decrease the comparative advantages of outsiders. Secondly, because of the upgraded regulatory cooperation and founding of common institutions, the logic of economic integration as a foundation for further political cooperation seems to exist. This holds in particular for the EU and US whose bilateral relations have a clear federalist undercurrent.

The power transition theory would also suggest that alliances are the means to provide incentives for outsiders and potential challengers to opt for cooperative strategies with the dominant group of states. China's reactions to TPP already provide evidence for this. However, this does not amount to dissolution of the BRICS. For intra-BRICS cooperation in various issues like agriculture and health, and also as far as the new financial institutions are concerned, TPP and TTIP do not have any direct effect on them.

Thus TPP and TTIP do not seem to provide any disincentives against furthering BRICS cooperation. Interestingly, this deepening cooperation does not preclude the likely effect of MRTAs on the global trade regime. It was said already in early stages of negotiations for both TPP and TTIP that these agreements provide a new gold standard for trade and there is nothing to suggest otherwise. Indeed, the overlap of RCEP and TPP memberships, China's willingness to join TPP, and the sheer size of the MRTAs, leave little space to contradict this interpretation. Some of the expert interviews after the Nairobi Ministerial Conference suggested that TPP is now going to set the stage for multilateral trade negotiations, too.


The authors' enquiry found evidence that the MRTAs do promote globalisation of a singular trade regime. In that limited sense the MRTAs provide support to the hypothesis of a battle for singular globalisations. This function can be seen as a battle because of the contestations of the similar (or less ambitious) agenda within the WTO. At the same time, the MRTAs do not stand out directly as tools or means for world dominance; rather, they do leave space for other initiatives on other dimensions of globalisations.

Despite promoting a globalisation of a singular trade regime, this effect of the MRTAs is by far certain. Exporters to the US and EU are already complying with their rules. While uniform trade rules would certainly be a means to make business easier, political concerns may provide enough disincentive for many outsiders in Asia against approaching the MRTA trade model. These concerns cover sovereignty, regulatory autonomy, Western dominance of global value chains, and varying cultural norms. BRICS strategy for economic partnership, the RCEP, and Latin America's ALBA-TCP, are all examples of initiatives which question the Western trade regime. If political will is strong enough, diversification of trade rules may also be an option. Indeed, forging stronger

economic integration among the non-western countries might also lead to the dissolution of the Western MRTAs in the long run.

While BRICS may not be an instrument for a new international order—as far as global trade regime is concerned—the evidence gathered for this paper suggest that in development and foreign policy, BRICS seems to have the potential to contribute to a more balanced, or even multipolar, world order. Economic globalisation seems, however, to be on track for further integration after 15 long years of stalemate within the WTO framework. However, while TPP and TTIP are likely to set the direction of global trade regime, they cannot force developing countries to yield their development concerns. Instead, TPP and TTIP would seem likely to give an incentive to take steps for domestic reforms on the path of development, in order to be ready for the MRTAs in the future.

As a corollary, this paper rejects the hypothesis of a 'battle for globalisations', in the sense that the changing world order would be dispersed into conflicting processes. Contentions and power struggles do exist but they do not seem to be the defining features of the new phenomenon. Rather there is evidence pointing to the diversification of global finance, development, and politics. As for economic globalisation or the global trade regime, diversification may, however, be short-lived if the MRTAs become the new normal.

This present analysis of BRICS suggests that 21st-century regionalism also has a drive towards a multipolar and more inclusive governance of, at least, development policy and crisis management. It seems probable that BRICS, SCO and RIC all evolve into a more balanced global political, environmental and security-related cooperation. In this restricted yet nuanced sense, a new world order is emerging through a certain of type of battle for globalisations – driven for the first time in hundreds of years by the ancient civilisational powers. 





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151. Bartsch, 2014.
152. Lamy, Pascal (2015) 'Is trade multilateralism being threatened by regionalism?', in Baru, Sanaya and Dogra, Suvi (eds.) *Power Shifts and New Blocs in the Global Trading System*, London: Routledge, pp. 61–78, 67–8.
153. USTR, 2011; 2013.
154. EC 10.2.2015.
155. USTR, 2011, 2013.
156. Capling and Ravenhill, 2011: 560–561.
157. De Micco 2013: 26.
158. Anti-Counterfeiting Trade Agreement.
159. Bhagwati, Jagdish, Krishna, Pravin and Panagariya, Arvind (2015) 'Where is the world trade system heading?', in Baru, Sanaya and Dogra, Suvi (eds.) *Power Shifts and New Blocs in the Global Trading System*, London: Routledge, pp. 17–38: 25.
160. Various interviews Indian think tanks and industry organizations, Juutinen 2015. On the other hand, India is also an emerging economy with highly competitive sectors in textile and rise production. For this reason the developing country argument for safeguards and import restrictions does not hold as much water as it used to.
161. However, one should be not for this reason argue that the all states have equal power in the WTO. According to various researchers (e.g. Barton, John, Goldstein, Judith, Josling, Timothy (2010), *Evolution of the Trade Regime: Politics, Law and the Economics of the GATT and the WTO*, Princeton: Princeton University Press, pp., 51, 56, 63) WTO is in effect very much influenced if not dominated by the biggest countries EU and US – although, as the paper also notes, Doha Round showed that this situation does not apply all the time and everywhere and does mean that the West can impose their will on others if conflict of interests are broad.
162. E.g., Hoekman and Kostecki, 2001: 303–4; Bhagwati *et al.*, 2015: 23–4.
163. USTR, 2013.
164. USTR, 2011; 2013; Lamy, 2015: 67–8.
165. Woolcock 2005; Sharma 2004; Bouzas & Zelicovich 2014; Bhagwati *et al.* 2015.
166. Kristen Hopewell (2015) Different paths to power: The rise of Brazil, India and China at the World Trade Organization, *Review of International Political Economy*, 22:2, 311-338, DOI: 10.1080/09692290.2014.927387; Bouzas & Zelicovich 2014.

167. Bhagwati et al. 2015, 18; Sharma 2004, 24.
168. USTR, 2011, 2013; Francois *et al.*, 2013.
169. Francois et al., 2013: 82.
170. Bi *et al.*, 2013: 207–208.
171. Petri and Plummer 2016, 20.
172. Subramanian 2015: 54.
173. This hits Chinese exports, but it also hits US companies who have invested in the special economic zones.
174. Singh 2014:1.
175. BRICS VI, 2014: 21.
176. Abhijit Das (2015), India and the Shadow of the Trans-Pacific Partnership, *Economic & Political Weekly*, November 7, 2015, vol L(45).
177. See Stiglitz, Joseph (2010), *Freefall. Free Markets and the Sinking of the Global Economy*. London: Allen Lane.
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179. Jordan Brennan (2013) *The Power Underpinnings, and Some Distributional Consequences, of Trade and Investment Liberalisation in Canada*, *New Political Economy*, 18:5,715-747, DOI: 10.1080/13563467.2013.736955; Saez, Emanuel (2015), *Striking it Richer: The Evolution of Top Incomes in the United States*, June 25, 2015, *The World Wealth and Income Database*.
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184. E.g., Schneider, 2014; Robinson, 2015.
185. USTR, 2011, 2013; EC, 2015.
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20, Rouse Avenue Institutional Area, New Delhi - 110 002, INDIA  
Ph. : +91-11-43520020, 30220020. Fax : +91-11-43520003, 23210773  
E-mail: [contactus@orfonline.org](mailto:contactus@orfonline.org)  
Website: [www.orfonline.org](http://www.orfonline.org)