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A REPORT ON THE OECD GLOBAL FORUM ON TRADE: GLOBALISATION AND EMERGING ECONOMIES

Rapporteur's Report

Paris, 25-26 June 2008

This report of being issued as part of the follow up to the Global Forum on Trade conference held in Paris on 25-26 June 2008. It was prepared by Professor Simon Evenett, University of St. Gallen, Switzerland.

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A Report on the OECD Global Forum on Trade titled

GLOBALISATION AND EMERGING ECONOMIES

that took place on 25-26 June 2008 in Paris, France

by

Simon J. Evenett¹, Rapporteur

Executive Summary

This OECD Global Forum on Trade focused on two important implications of the impressive growth in recent years of the BRIICS (Brazil, Russia, India, Indonesia, China, and South Africa) and other emerging markets, specifically, the consequences for significant international markets and for the political economy of trade reform. The distributional implications of these trends, and not just the impact on growth was highlighted throughout the Forum. Following three keynote speeches at the beginning, the Forum was organised into three substantive sessions and a concluding session that sought to draw out the forward-looking implications of the Forum. The purpose of this report is to summarise the key points made by presenters and participants with the following remarks organised in the same sequence as the Forum itself.

Setting the Scene: Three Perspectives on Globalisation and Emerging Economies

1. After some welcoming remarks concerning the purpose and organisation of the Forum, three keynote speeches were made on the inter-relationships between globalisation and the emerging economies. In the first such speech it was argued that at present the global economy is beset by growth-, energy-, finance-, food-, and inflation-related challenges. These challenges may frustrate the attainment of a critical medium term objective, namely, the continued growth and take-off of emerging and developing economies in a sustainable manner. In principle, it was argued that this amounts to more efficiently allocating the world's resources. In practice, it requires a twin commitment to openness and to the domestic policies that promote permanent growth.

2. Improvements in information and communication technology, plus low or no barriers to trade and investment, have encouraged the development of supply chains, the transfer of technology, and generated employment opportunities in emerging markets. Openness has therefore allowed better resource allocation, adding to overall welfare. While such openness is often legally codified in trade agreements, the speaker noted that it needed to be safeguarded. Quoting from the recent Growth Commission Report the speaker said "An international economy in a world of nation-states has no natural guardians. That is perhaps the biggest risk of all." This points to the importance of sustaining support for open borders and for understanding the political economy of trade reform. What is at stake, it was argued, was nothing less than the growth that was fundamental to the poverty reduction witnessed over the past decades in certain regions of the world economy, such as East Asia.

3. Policies that generate macroeconomic stability, flexible labour markets, good governance, and effective environmental policies are essential if permanent growth is to be achieved in a sustainable manner. Trade openness reinforces the pressure for other reforms and those other reforms reinforce the benefits of trade openness. Governments can and should take advantage of this virtuous circle. Even so,

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there is no denying the significance that adjustment costs can play in shaping the political economy of trade reform. The benefits of openness will not be uniformly shared among a nation's population, some will gain and some will lose. Moreover, sometimes those gains take a while to emerge and the costs may appear sooner. It was argued that the most effective policy response to such distributional concerns involve social policies, not by restricting trade. Protection is a tax on exporters and on efficient import-competing firms, as well as harming consumers. Worse, protection offers false hope in that it only temporarily "saves" jobs. Better instead to design social safety nets and other measures to mitigate adjustment, not frustrate adjustment in the first place. With the right combination of internal policies and open borders, growth in emerging markets need not come at the expense of growth in the industrialised world, quite the opposite as the former provides one of the customer bases for firms from the latter.

4. The second keynote speaker noted that the six BRIICs countries were the fast growing emerging markets that accounted for 46% of the world's population, 13% of global GDP, 11% of world trade and inward foreign direct investment, and held a third of the world's total foreign exchange reserves. Three of the BRIICs hail from Asia (India, Indonesia, and China) but it should not be forgotten that other East Asian nations have enjoyed fast economic growth now and in the past. Market-oriented reforms have underpinned this growth, which has paid off in terms of higher living standards and a substantial fall in the percentage of persons living in poverty. While the rise of the BRIICs and other fast growing emerging economies has had implications for their own societies, this speaker also stressed the implications for the global economy, not least in terms of world trade talks, current account imbalances, rising demand for energy, oil, and food, environmental degradation and climate change. It was argued that stronger collaboration between the OECD and BRIICs countries is essential to resolve many current global challenges.

5. In terms of the international knock-on effects of developments in the OECD and BRIICS, the first example given by the speaker was the so-called subprime crisis that had been affecting US and European financial systems since August 2007 and whose consequences had begun to spread to other jurisdictions through, amongst others, a lower value for the U.S. dollar. These developments coincided with a surge in oil prices past USD 140 a barrel and record price for other commodities, including food. The speaker was sanguine about the consequences for Asian growth of the recent financial turmoil, arguing that little exposure to subprime mortgages, strong growth in intra-Asian demand, a large pool of savings, and a diversified set of export markets would cushion Asia's economies, resulting overall in only a slight slowdown in growth. The speaker was, in contrast, more concerned about the implications for social tensions of higher commodity prices, including food and oil prices. As many as 1.2 billion Asian are vulnerable to sharp movements in these prices and inflation has reached alarming levels in certain economies. In the speaker's view governments should take three steps: pass on international price increases to customers to induce economies and demand reductions, and so replace fuel and food subsidies and price controls with direct cash payments to the needy; tighten monetary policy to reduce inflation and avoid a wage-price spiral; and undertake reforms to capitalise on higher prices that will stimulate agricultural production and energy efficiency.

6. International trade initiatives provide another example of the growing complexity of relations among the BRIICS, emerging markets in general, and between the BRIICS and the OECD nations. On the one hand, several of the BRIICS nations have played a significant role in the Doha Round of multilateral trade negotiations, seeking to ensure that the result is "win-win," as the speaker put it, rather than a one-sided outcome. Yet, at the same time many economies, in particular in the Asian region, have been strengthening ties between themselves and with OECD nations through the negotiation of free trade agreements. On the face of it, the latter create opportunities for more trade but, as the speaker noted, the possibility of trade diversion and discrimination against third parties could not be ruled out. Worse, overlapping rules of origin and other requirements to benefit from trade deals limited their impact. Consolidation of Asian free trade initiatives was a priority, with a single free trade agreement in the region acting as a building block for progress at the World Trade Organization (WTO).

7. Collaboration between the BRIICS and OECD nations in a number of areas would be desirable, the second speaker argued. Global macroeconomic shocks call for OECD nations to maintain as best they can stable financial markets and exchange rates. Energy saving technologies could be transferred to emerging markets, so blunting the long-term effects of higher oil prices. For their part, BRIICS should strengthen domestic demand and take the measures, including structural reforms and promoting social protection, identified earlier. With respect to international trade, OECD and BRIICS nations should work together to complete the Doha Round, resist protectionist pressures, and come to a new understanding concerning foreign direct investments and sovereign wealth funds. A third area of common interest is in limiting income inequality and social divides, so ensuring that the progress engendered by globalisation does not lose public support. Governance reforms and the design of social safety nets are important here, and it was argued that with respect to the latter the BRIICS could learn from OECD members. In conclusion, this speaker argued that the greater participation of emerging economies in international economic organisations would add to their legitimacy and contribute to the identification of solutions to common challenges.

8. Indian economic reform and the multilateral trading system were the focus of the third keynote speech. In India's case the distinction between what reforms a country decides to undertake unilaterally and what it commits to in a multilateral trade negotiation is significant. Substantial unilateral trade reform undertaken over just short of 20 years, investment accounting for 30% of GDP, fast growing exports of services, and considerable inward and outward foreign direct investment have contributed to India's fast growth rate (approaching nine per cent), the rise of a cohort of Indian multinationals, and a more relaxed attitude to fostering competition at home. Still challenges remain, not least as far as poverty is concerned and the associated political demands are amplified in India's system of federal democracy. Not surprisingly, then, attention has shifted from promoting growth to fostering inclusive and sustainable growth.

9. The speaker then dwelt on the implications of these circumstances for multilateral trade negotiations. India had become a more active participant in these negotiations in recent years and had learnt about the political constraints in other jurisdictions as well as its own. These constraints pose a challenge to policy makers as the long term gains need to be convincingly explained, in contrast to often pressing cyclical and short term concerns. Yet a question mark over these gains has been suspended by the Doha Round's failure to effectively tackle agricultural subsidies, which this speaker contended was the Round's biggest goal. For sure, in India agricultural subsidies have not come down enough, but this is true in other countries too. Indian farmers may well be able to compete with their American counterparts but they cannot, it was said, compete with the United States Treasury. Product-specific caps were needed on agricultural subsidies but there were no concrete offers in this regard. The demands of industrialised countries were unbalanced too as they sought agricultural tariff cuts in developing countries while rejecting proposals for an effective special safeguards mechanism. Without such a mechanism there would be no protection against import surges for the millions of poor Indian farmers.

10. With respect to the other major topics of the Doha Round negotiations, concern was expressed that the formula used to cut tariffs on industrial products would result in a higher percentage cut in tariffs in poorer countries than in their industrialised counterparts; an outcome, it was argued, was inconsistent with the premise of a round for development. Moreover, on services India had specific demands on the first and fourth modes, the latter requiring the creation of a special class of visa for temporary work abroad. These matters had yet to be resolved in a mutually satisfactory way. Overall, it was argued that India did understand the dynamics of multilateral trade negotiations and was seeking a balanced outcome. In this regard it was worth noting that the type of bargaining within a multiple level federal democracy, like India, had some parallels to state-to-state negotiations on trade matters.

11. Following these opening remarks the trade minister of an emerging market made a few observations around a central theme of reconciling national circumstances and global opportunities. Despite ethnic strife

and high oil prices in the country concerned, the annual rate of economic growth over the last three years was 7%. Yet there was much to be done: taking advantage of access to a large neighbour's market, facilitated by a free trade agreement signed 10 years ago, was one challenge; promoting the shift from manufacturing to services was another; and addressing the high levels of urban-rural inequalities and promoting social equity an important task facing the government. Internally, promoting dialogue and democracy were central tools. Externally, ensuring preferential access to European and other industrialised countries was seen as vital, advantages that should not be eroded by overly stringent labour and environmental standards. These remarks echo those made earlier about the inter-relationship between internal and external factors shaping the trajectories of emerging markets.

Session I: The Impact of the BRIICS on international markets

12. The chairman of this session introduced the topics to be discussed by noting that there are many potential markets which the growth of the BRIICS could influence, not least the goods and services markets, commodity markets, and financial markets. Moreover, it was important to consider the knock-on effects of changes in the BRIICS, the OECD nations, and other countries, including other fast-growing countries that appear not to have been included in the former designation. In thinking through the dynamics associated with the BRIICS the chairman emphasised that it was important to see them as a distinct collective phenomenon, rather than as separate country experiences. This group of countries had attracted particular attention because of their size (employing collectively more than half of the world's labour force) and substantial economic momentum. The chairman wondered if this phenomenon foretold a new phase in economic history and economic geography, or was it driven largely by technological and institutional developments. Whatever the characterisation, like the keynote speakers in the previous session, the chairman argued that there elements internal and external to each country that required understanding.

13. The first substantial presentation in this session presented a number of projections for the evolution of the world economy over the next 20-30 years. The presenter was careful to point out the pitfalls associated with such projections but felt that this approach helped identify significant matters of policy importance. Over the next 25 years world economic growth is projected to be 0.25 per annual faster with richer countries slowing slightly and the poorer countries growing faster. This growth path is expected to be robust to all but the most pervasive, that is worldwide, shocks. This growth trajectory will see Brazil, Russia, India, and China account for an estimated 23% of world output in 2030 and other developing countries accounting for a further 22%. Should this happen it represents a substantial shift in relative spending power away from industrialised countries. China and India dominate these growth projects, with China overtaking the largest industrialised economy at some point during 2010-2015. India's growth is expected to remain robust once demographic changes in China slows the latter's economic growth around 2020. By 2030 Chinese per capita income is expected to rise to two-thirds of that of high-income countries, the equivalent fractions for Russia, South Africa, and India being five-sixths, seven-tenths, and three-tenths, respectively. Across the developing world, catch up with industrialised country living standards is expected to be faster in East Asia and the Pacific, South Asia, and in Eastern Europe and Central Asia. Progress in Africa is likely to be less encouraging and the speaker called for the continued engagement of the international community there.

14. Differences in the growth trajectories across emerging markets are expected to have important implications for intra-national inequality and for national policies. Two-thirds of the countries reviewed in this presentation were expected to experience higher rates of income inequality (in extrapolations that took account of likely demographic dynamics.) The skill-intensity of the growth path and the initial distribution of skills within the labour force were said to be main determinants of long-term trends in income inequality. Brazil, for example, starting from a fairly unequal distribution of skills is likely to see greater equality. India's growth is likely to be concentrated in sectors where skills demands are highest, creating greater income inequality as a by-product. The speaker argued that investments in education and in worker training can alter these outcomes; higher levels of inequality are not inevitable then.

15. The fast growth of emerging markets is also having implications for energy markets and the price of food. The latter is now increasing, reversing a thirty year decline, and has both proximate determinants (droughts in certain jurisdictions, the falling value of the U.S. dollar, policies fostering production of crops for bio-fuels, and export restrictions) and longer term causes (rising calorie consumption, discouraged investment in agriculture due to the subsidised dumping of crops, and barriers to trade in agricultural products.) Over the medium to longer term multilateral initiatives, especially in the context of trade negotiations, may relax the upward pressure on food prices, it was argued. Another area requiring inter-state collaboration is the environment. The speaker reminded the Forum of the well-known trends in carbon emissions, distinguishing between the existing stock of such emissions and the current and likely future flows; the balance of industrialised and developing country contributions towards the former and the latter being different.

16. The foregoing developments have implications for policymaking at the national and global levels, the speaker argued. Concerning the former, a primary goal must be to enhance competitiveness by improving productivity growth and the business environment. Such supply side measures should be augmented by larger investments in education, although the speaker cautioned that it was the “quality” of education rather than its “quantity” that mattered. Policies towards the labour market should protect workers and not jobs *per se*. Multilateral collaboration will have to widen and deepen too, reflecting the growing number of cross-border spillovers and their consequences. Further measures to protect the so-called global commons were mentioned. The rules governing the international economic organisations, established after the Second World War, needed revision so as to increase the participation of the BRIICS nations and to allow for more flexible network-based decision-making where appropriate. As for the world trading system, more aid was needed to promote the integration of the poorest nations into the world economy and trade barriers on the products exported by the poor need to be eliminated.

17. The second speaker drew on his considerable experience operating a multinational subsidiary in China. This speaker began by offering some contemporary and historical perspective on the BRIICS and on China in particular. From his point of view China and India stand out among the BRIICS, with the latter's trajectory likely to be more important 20 years from now than at present. Using a benchmark level of spending of USD 10 000 (in purchasing power terms), the speaker estimated that at present China has 76 million such consumers, a small fraction of its billion-plus population. This number is approximately the same in Germany (70 million) and less than comparable figures for Japan (110 million) and the United States (236 million.) By 2020, however, the number of such Chinese customers is expected to rise to 700 million, a nine-fold increase that highlights the growing potential of the Chinese market relative to some OECD counterparts. In some respects, the speaker argued, this reflects a return to the Chinese pre-eminence in the world economy seen before the eighteenth century.

18. Two other key dynamics, that will contribute to fast growth in China until 2020, are urbanisation and demographics. Each year 1% of the Chinese population moves to its cities, requiring investments in infrastructure and the like comparable to building New York City from scratch. An estimated USD 1.2 trillion will be spent during 2008-2012 in China. As to demographics, until 2020 China will be the enviable position of having, relatively speaking, fewer young and fewer old. After 2020, however, the effects of aging of the Chinese population will be increasingly felt. At that point wage pressure will intensify, pushing up export prices and, given the wide reach of Chinese exports, inflation abroad.

19. Production in China will remain cost competitive for many years to come, the speaker argued; being a continent China still has its own “Bangladeshes” and “Vietnams” inland to make use of. China produces goods cheaper and faster than many rival locations and while these advantages will eventually erode, that point is a long way off. It was reported that the cost of establishing a plant with Western standards and facilities in China was 30-40% less than elsewhere; a similar cost advantage is found in production. However, the deteriorating physical environment in China is an important countervailing factor. Chinese national output is estimated to be 5-7% lower on account of environmental degradation. Only 40% of

industrial waste is recycled. Three hundred million Chinese drink polluted water and life expectancy is falling in some locales. The speaker argued that the Chinese government is taking stronger measures to tackle these matters. For example, approximately 30% of foreign investment projects are currently being turned down on environmental grounds (during the years 1995-2005 this was almost unheard of.) The state environmental agency has been elevated to a ministry and given more clout. More, in the speaker's opinion, needed to be done; the consequences from failing to do so are not just eroded competitiveness but also potential social unrest.

20. Some perspective was also needed, the speaker opined, as to the trade-related consequences of Chinese cost competitiveness in manufacturing. A careful review of certain statistics provided some corrective to certain concerns articulated in industrialised countries. It may be true, for example, that the Chinese trade surplus with the European Union (EU) is substantial but East Asia's overall trade surplus with the EU has not changed much over time. The relocation of manufacturing activity within East Asia has essentially reshuffled exports to the EU, with Japanese exports falling. (The speaker noted that is not to say that China does not retain some barriers to EU exports, on that particular matter it was reported that according to one chamber of commerce based in China these barriers reduce the sales of EU firms by EUR 21 billion *per annum*.) The speaker also noted that labour costs represented only a small fraction of the eventual price of most of the goods that are produced in China by (or for) firms based in high-income countries. Innovation and design, marketing, and pre- and post-sale service are more likely determinants of whether the latter firms survive and flourish than any production cost advantages.

21. In the discussion among participants that followed many concurred with the need to differentiate between the BRIICS and noted the special place that China held at present. Some went further and differentiated between the BRIICS and other developing countries, asking what the former's rise meant for the latter. Some wondered if Africa in particular would be further marginalised and asked what policy measures could be taken reverse to potential adverse developments on that continent. The perceived rise in protectionism, especially in Europe, was a concern voiced by a number of participants. Some asked about the potential for and consequences of the upgrading of Chinese industries and one speaker responded that China was following the pattern established in East Asia by Japan, Korea, and others. In this regard Chinese experience was not exceptional and the value-added content in Chinese exports would be expected to rise over time.

Session II: The Role of the BRIICS in the Process of Globalisation

22. In his introduction to the second session the chairman noted that, while international governance arrangements such as the multilateral trading system provided an important framework for state policies and sought to encourage the greater participation of nations in the world economy, it is the policies actually adopted by governments that matter. For example, one might ask what measures have proven successful in encouraging the participation of developing country firms in global supply chains. The three presentations in this session examined in greater depth the policy mix adopted in the BRIICS and particular attention was given to two of these fast-growing large emerging markets.

23. Taking a broad conception of national competitiveness (to include longer-term factors such as innovation and not just costs and productivity), a detailed comparison of the economic performance and policy regimes of the BRIICS was the subject of the first presentation in this session. In terms of international trade performance, while it is well known that China's share of world trade has risen, so has India's. South Africa's performance in this regard is mixed and Indonesia and Brazil's shares of world trade have fallen. Likewise, the import-to-GDP share in India and China have risen, partly driven by greater participation in international supply chains. In India's case the substantial cuts in its applied tariff rates since 1991 may have also contributed to greater sourcing abroad. In general, applied tariff rates in the BRIICS have been reduced considerably, so has the variance in tariffs applied across goods and effective rates of protection (that take into account the tariffs charged on intermediate inputs as well as on final

products.) Differences in endowments of natural resources influenced the export performance of the BRIICS, with Russian export growth being particularly unusual in this regard. Inflows of foreign direct investment were dominated by China, even so it should be remembered that some BRIICS, such as South Africa, have long enjoyed a large accumulated stock of inward foreign investment.

24. Turning now to important domestic determinants of economic performance, unit labour costs have risen in most of the BRIICS in recent years, but the variance of labour productivity growth rates across these countries is high. Chinese and Indian rates of investment as a share of GDP are higher than in other BRIICS, while Brazil tends to invest less. Rates of growth of patenting are much higher in India and China than elsewhere, but admittedly this growth is from a low initial base. These factors indicate the different dimensions upon which the large emerging markets are integrating into the global economy and how some of the critical determinants have changed over time. A general trend towards greater openness of the BRIICS has produced, therefore, a variegated set of outcomes.

25. Developments in Russia provided the substance of the second presentation. This speaker began by arguing that Russia was not like any of the BRIICS for three reasons; geography (Russia, it was said, was part of many “pictures” but not at the centre of any one “picture”); geology (vast reserves of oil and gas) and history (having once been a superpower with a very heterogeneous economic structure.) These three factors also account in part for Russian policies and performance over recent years. Higher oil and gas prices ensure that the energy sector accounts for 30% of Russian national income and half of Russian exports. Even so, the speaker noted, a more important element in the economic transformation witnessed in Russia over the past 15 years has been associated with the rise of the service sector, largely in response to consumer preferences. Imports have increased as a result, and higher energy prices mask a possible balance of payment problem, it was said. While higher rates of investment are limiting capacity-related constraints on growth, inflation has risen partly driven by a substantial expansion in the money supply.

26. Turning to future Russian economic performance it was argued that a greater emphasis on innovation was needed, a point that the Russian government was said to have acknowledged. Extracting higher value-added products from Russia's natural resources offers a further potential source of growth, although attaining this goal may be more complicated given the state's rejection of a strategy based on a catching-up or imitation of foreign practices. More generally, the question arises as to the extent to which natural resources could underpin a fast rate of Russian growth. The development of financial services is said to be a priority as well. The point was also made that the current signals suggest a waning interest on Russia's part in WTO membership, suggesting implicitly a limited potential role of international rules in shaping Russian policies over the near to medium term.

27. Before providing an overview of Brazilian development, the third speaker noted that the contribution of BRIICS was to force a rethink of the pre-requisites and nature of economic and social development. The diversity of institutions across the BRIICS suggested that no single formula (such as free markets and democracy) sufficiently characterised recent developments. Moreover, growth appeared to be possible with large levels of inequality and apparently different levels of societal concern about related matters. One implication of these observations is that durable international accords and initiatives must be consistent with a number of different national reform trajectories and objectives.

28. Six factors together were said to account for Brazil's recent economic performance, five of them being explicit policy decisions; namely, privatisation and deregulation, enhancement of national competition law, openness to foreign capital, a freer trade policy, and pursuit of macroeconomic stability. The sixth ingredient was the fact that the transfer of power from the previous president to the current incumbent did not involve large changes in the business environment, even though social expenditures and transfers have risen markedly. Growth has returned in recent years and exports have grown, notwithstanding the latter are based almost entirely on labour-intensive products, raw materials, and agri-business. Integration into global supply chains is weak, especially when compared to East Asian

economies. Upgrading of manufacturing has been limited, and reflects weak efforts at innovation and research and development. Deficiencies in the national education system underpins this supply side performance and, it was argued, ought to be an important priority for reform. With respect to external policies, Brazil has taken a much more higher profile in international trade circles and has developed strong links to the other BRIICS. Some of those links are having a commercial payoff; for example, China sees Brazil as a reliable supplier of raw materials and meat.

29. During the ensuing discussion a number of views were expressed as to whether it made sense to group the largest emerging markets together. On the one hand, some argued that there were enough similarities in the general direction of policymaking in these countries that a collective examination of this group was instructive. Others argued, however, that differences in national economies and decision-making processes were so striking that emphasising the commonalities was potentially misleading. One participant argued that only one of the BRIICS really mattered, namely, China. Another perspective advanced was that the rise of the BRIICS posed a challenge to much orthodox development thinking and policy-making, with implications for aid priorities and other matters. These more systemic observations were rounded out by a number of specific questions concerning Russian and Brazilian policies and performance.

Session III: The Political Economy of Trade and the BRIICS

30. In opening remarks the chairman of this session noted that there was a potential two-way relationship between the integration of the BRIICS into the world economy, including their participation in international economic initiatives such as multilateral trade negotiations, and their national policies and priorities. Shedding light on the policy formation processes in the BRIICS, especially with respect to external policies such as commercial policy, was one goal of this session. Drawing out the potential implications for the World Trade Organization and the ongoing Doha Round of trade negotiations was another.

31. The first speaker began by posing the following questions: How have politics and economics shaped trade and investment reforms in the BRIICS and the priority given to these reforms? What can be expected in terms of a second generation of reforms? Before addressing these specific questions, the speaker made some general observations on the global climate for external liberalisation. It was argued that since the East Asian financial crisis of the late 1990s there has been a slowdown, but not a reversal, in the pace of trade reforms in the BRIICS. There are two exceptions to this tendency: Russia (where a reversal was said to have occurred during the last presidential administration) and China (with its accession to the WTO.) Three factors were said to be responsible for this slowdown. First, the necessity of national reforms was questioned when the BRIICS enjoyed especially fast periods of fast economic growth. Second, the so-called low hanging fruit has been harvested; opposition to removing remaining trade barriers was greater. Third, the so-called Washington Consensus has lost considerable appeal among policymakers in the BRIICS, while it was said that East Asian economic performance offered more lessons for other emerging markets. The speaker argued that this slowdown in the pace of reform was unfortunate as the BRIICS still have higher tariff barriers than the industrialised economies. Moreover, plenty of impediments to foreign direct investment in the service sector remain in the BRIICS. Plus, available measures of the domestic business environment suggest that, with the exception of South Africa, there is considerable room for improvement in the BRIICS. Slow and costly trade facilitation effectively taxes domestic and foreign commerce in many of the BRIICS. Finally, public sector and labour market reforms were needed in the BRIICS to make the most of the opportunities generated by globalisation. Having made these remarks, the speaker then turned to the underlying factors that accounted for these outcomes.

32. Several factors were said to influence the content and pace of commercial policy reforms in the BRIICs. Interest groups, of course, are one such factor but potentially significant changes are occurring over time. Opposing defensive interests were a growing number of outward-oriented firms and their industry associations, such as agricultural exporters in Brazil and service sector firms in India. While the

latter are growing in importance, their impact on the commercial policies of the countries concerned has yet to be fully felt. Macroeconomic crises has provided opportunities to sideline otherwise influential defensive interests, although such crises cannot be counted on to sustain support for reform. In contrast to interests, it was argued that the role of pro-free trade ideas was typically over-emphasised. While orthodox macroeconomic ideas have spread in emerging markets, what was deemed microeconomic orthodoxy (including promoting open borders) has not. With respect to institutional considerations, it was argued that substantial trade reforms tend to be driven by finance ministries and typically during macroeconomic crises. Once the crisis is over, however, the finance ministry retreats to its traditional mandate and weaker trade ministries cannot sustain momentum for reform on their own. Emerging markets with substantial resource endowments tended to reform slower, especially during an era of high commodity prices. Foreign policy considerations were also very important, especially when it came to regional trade agreements. Given the differences across the BRIICS countries the above considerations do not apply to the same degree in each case, however together they do influence each major emerging market's commitment to unilateral, regional, and multilateral trade reform.

33. The first speaker drew several lessons from the BRIICS experience with trade policy reform. A second generation of reforms, especially to tackle non-tariff and regulatory barriers to trade, was needed. The first generation of reforms, typically unilateral in nature, had led to lower tariffs but certain tariff peaks remained. These reforms could be reversed and needed to be locked-in. In general, emerging markets should view trade policy as part of domestic economy policy, undertaken unilaterally and less subject to what were referred to as the “whims” driving international trade negotiations. Steps to promote transparency and predictability should be given greater priority, it was argued, as this fosters business confidence and promotes investment.

34. The second speaker examined the impact of Chinese and Indian reforms on the countries of the Middle East and North Africa. A distinction was made between the net oil exporting countries of that region and the resource-poor countries. With respect to the former, the fast pace of economic growth in China and India had increased the demand for oil that the Gulf Cooperation Council (GCC) members have in considerable abundance. It was reported that during the years 2004-2006 approximately 35% of the increase in the demand for oil came from India and China. Moreover, demand for products refined from petroleum has increased (so much so that Saudi Arabia has replaced South Korea as the biggest supplier of chemicals to China.) In addition to affecting bilateral trade flows from the Gulf, the increased price of oil has lead to substantial increases in revenues for the Gulf region, revenues that are being invested abroad. In 2006 11% of GCC investments were in Asia, a proportion that is likely to rise over time.

35. It was argued that investment policies, rather than trade policy, were more likely to be a source of discussion between the GCC and the rising Asian economies. Both India and Chinese companies are trying to invest upstream in the higher value-added stages of the energy sector, and this was subject to many restrictions in the Gulf. India and China too are not without their restrictions on foreign direct investments. Any negotiation on this subject need only be bilateral, it was argued. GCC trade barriers were said to be too low for these to be a source of concern.

36. With respect to the middle-income countries of the Middle East and North Africa (namely, Egypt, Jordan, Morocco, and Tunisia) the effects of the rise of India and China takes on different dimensions. The first order effect, namely in the form of higher oil prices, is likely to put a strain on the current accounts of these countries as well as to raise rates of price inflation. Competition from Chinese firms in North American and European markets will displace these countries' exports, a separate effect. Greater competition from emerging markets in the domestic markets of these middle income countries will intensify pressure on domestic producers, possibly inducing a protectionist reaction. A lack of competitive exporters was said to limit the extent to which these countries can take advantage of expanding demand in the fast-growing Asian economies. Investment from the BRIICS in the Middle East and North African economies is likely to increase; foreign direct investment in the other direction is likely to focus on

software in India and in the telecommunications sector in China. The implications for reciprocal trade reform are likely to be limited, as defensive considerations in the Middle East and North Africa are unlikely to make free trade agreements with the Asian BRIICS attractive and many of the former countries have already negotiated regional trade agreements with North American and European nations. Pressures for unilateral reforms in the middle-income countries of the Middle East and North Africa may rise and this would be a welcome consequence of the continued rise of the Asian BRIICS.

37. In the ensuing discussion many participants dwelt on the reasons for the slow pace of second generation national trade reforms. Some stressed that the rise of the BRIICS may have been a contributing factor, especially where defensive considerations in other countries were triggered. Others argued that trade reform should become more evidence-based, pragmatic, and sectoral in focus. This, it was argued, was to be contrasted with the “liberalise first, think later” approach that was seen to be dominant hitherto. Aligning trade policy reforms with industrial policy goals as well as lowering the cost of doing business and overcoming infrastructure-related bottlenecks were also said to be priorities. Cultural mores, one participant argued, limited reforms in many service sectors, although another speaker noted that mores can change over time. Greater attention to distributional and labour market outcomes was said to be necessary if a new generation of reforms was to go forward. Others noted the difficulties in mustering a constituency in favour of further reforms. Beneficiaries of past reforms, it was argued, tended to attribute any success enjoyed to their own efforts, while losers attribute any harm to reforms. This was further complicated in countries with federal constitutions, as is the case of many of the BRIICS. Such federal structures tend to grant substantial powers to sub-central government, which can influence the pace of second generation reforms. Having said that, positive demonstration effects at the province level may convince doubtful decision-makers in other parts of the country. A further complication is that unfair and prominent foreign commercial policies that have adverse international ramifications can make it harder for reformers to advocate change at home.

38. Some participants also drew implications for the multilateral trading system of the dynamics shaping commercial policies in the BRIICS. One argued that national constraints on reform were essentially being projected to the multilateral level. Another argued that some of the BRIICS had been forceful advocates of agricultural trade reform and that this was appropriate given the impact certain nations' agricultural policies had on the developing world. Yet another perspective was that the Doha Round of trade negotiations had intruded too much into domestic policymaking and not enough attention had been given to the so-called development mandate adopted by WTO members. A participant from an industrialised country argued that the WTO should stand on two legs, as he put it, proceeding with liberalisation as well as developing and clarifying rules. Worsening confidence in the world economy and high commodity prices were also said to have influenced the positions taken in recent months by certain nations during the Doha Round negotiations, further pointing to the contribution of systemic factors to the trade reform imperative.

Session IV: The Way Forward

39. In this session five presenters plus the rapporteur were asked to look forward and identify agenda items around which the BRIICS countries, other developing countries, and OECD nations could coalesce. In addition to identifying common future challenges, the speakers were encouraged by the chairman to identify possible policy measures and analytical work that might support decision-making in the months and years ahead.

40. In addition to the importance of concluding the Doha Round, that is of considerable interest to the BRIICS and to other developing countries, the first speaker emphasised that there would be a substantial agenda for future work to be completed at the multilateral level on trade reform. Even after the completion of the Doha Round much would still remain to be done in liberalising agricultural policies. The core rules of the WTO should be strengthened so that the gains in opening markets cannot be reversed by resort to

discriminatory measures. Analysis on potential multilateral rules on investment policies (in particular as they relate to market access and pre-establishment matters) and government procurement (both transparency-related and market access concerns) was warranted, and it was said that the OECD could play a useful role in this regard. Finally, it would be important to address what was called a deficit in transparency in member notifications to the WTO. This deficit compromises the full exercise of WTO members' rights, and probably disproportionately affects poorer countries.

41. While the BRIICS have become what the second speaker referred to as the second anchor of the world economy, further consideration of the challenges and circumstances faced by the rest of the developing world was in order. These countries, in particular the Least Developed Countries (LDCs), may well represent a small share of total world exports but their share of world population was much larger. Food security, energy security, and vulnerability to climate change were topics of great concern to the LDCs. Substantial trade imbalances between the poorest nations and the BRIICS had developed, and the stronger of the latter nations were urged to offer duty-free quota-free access to the former's exports. The overseas expansion of multinational corporations of the BRIICS into the poorest countries also merited further attention, it was said, as did the programmes of aid offered by the BRIICS.

42. The next speaker looked forward and identified four challenges facing her country, a BRIIC. The challenges all required further research and analysis, and the OECD could contribute in this regard. The four challenges related to agricultural development and reform, infrastructure needs and financing, addressing skill shortages and educational reform, and macroeconomic management in an open economy with an increasingly modern financial sector. These challenges were somewhat inter-related and so a holistic approach to addressing them was needed.

43. More, not less, globalisation was the theme developed by the fourth speaker. Recounting the substantial number of unilateral and regional trade reform steps taken by his country, it was argued that national development policy could be tailored to the opportunities created by the external environment. The prize of falling rates of poverty and social stability are within reach for developing countries. It was important to address the fears that some may have about external reforms and here effective national safety-nets and social security schemes can play an important role. At the multilateral level, further work was needed on the rules concerning non-tariff barriers, technical barriers and standards, and regional trade agreements.

44. Three themes were emphasised by the fifth speaker in this session. Expecting the unexpected was said to be a succinct way to summarise the first theme. The economic growth trajectories of recent years, for example, had not been foreseen. Moreover, looking across nations higher rates of economic growth were positively correlated with the variability in that growth, suggesting that current performance may not be a reliable guide to future outcomes. These considerations call for some perspective about the sustainability of current observed growth dynamics. The second theme concerns emulation, specifically, the extent to which the growth formulas of different BRIICS can be followed by other developing countries. In this regard, the speaker thought it was interesting that China's growth appeared by driven by manufacturing growth, the distinctive feature of Indian growth arose in its service sector, and Brazilian performance was largely due to its rich agricultural resource endowment. It would seem that developing countries have a number of different sectoral trajectories available to them, and more work on the appropriateness of each path is warranted. The third theme concerns the governance of the international organisations and the role that the BRIICS can play in them. Indeed, the relative weight of the different functions of certain international organisations may need to change in the light of the rise of the BRIICS. For example, the speaker wondered if the WTO's capacity to deliver liberalisation has been over-emphasised at the expense of its rules-related functions.

45. Like many of its predecessors this concluding session saw speakers link developments internal to the BRIICs to both the fortunes of other countries, industrialised and developing, and to international rule-making and negotiations.

Concluding remarks

46. The sustained economic growth in a number of the BRIICS, in particular the acceleration in the middle of this decade of such growth in India and China, has attracted much comment precisely because these countries are home to so many of the world's poor and because the fortunes of the rest of the world are also implicated. This Global Forum advanced our understanding of the dynamics internal to the BRIICS growth processes--emphasising not just economic outcomes but also social developments and the factors shaping policy-making--and drew out current and likely future implications for the world economy and for international rule-making. Time and again the connection between internal, domestic developments in the BRIICS and state-to-state relations and negotiations were made, emphasising that those associated with the latter need to pay attention, perhaps more attention, to the former. Not once was the point made that the BRIICS sought to replace or undermine existing international economic accords, rather that the process of global rule-making needs to be better aligned with a larger group of nations' priorities than in the past. That being said, as was noted at the Global Forum, the BRIICS are not the only developing countries and consequently it would be unfortunate if an emphasis on certain success stories detracted from a better understanding of the diversity in challenges, circumstances, and performance across the entire developing world.