Chapter 4

Globalisation and the Political Economy of Trade Liberalisation in the BRIICS

by

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Introduction

This paper tries to make sense of trade-policy developments in the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa), against the backdrop of trade and foreign-direct-investment (FDI) liberalisation in developing countries and countries in transition since the early 1980s. Its accent is on political economy, comparing the countries concerned to show how politics and institutions interacted with economic conditions, and shaped the relative success or otherwise of reforms. National trade-policy reforms must also be seen in the context of modern economic globalisation. The global macroeconomic climate, in addition to global patterns of trade, FDI and technological change, set the external economic context of constraints and opportunities for nation-level policies in the BRIICS. Then there is the global political context: international rules and international economic organisations (such as the WTO, IMF and World Bank), and the role of the major powers, especially the USA.

This exercise is also intended to shed light on the prospects for further trade-policy reforms, at a time when the global financial crisis and a seemingly severe global economic downturn have generated greater protectionist pressures. Can the new upsurge of protectionism be contained? How necessary is further reform of trade and FDI regimes in the BRIICS? What are the links between external liberalisation and domestic regulatory reform? What is the balance between unilateral measures (undertaken independently by national governments) and reciprocity (undertaken through trade negotiations and agreements with donors)? Above all, what are the political and institutional requisites for further trade-policy reforms? What obstacles lie in their path? How are present conditions different from the political economy of trade-policy reforms in the last quarter-century?

The first section sets the scene by looking at the global climate for external liberalisation, including debates revolving around the Washington Consensus. This provides the external frame for trade policy in the BRIICS. Section Two reviews the record of trade and FDI liberalisation in the BRIICS. Section Three probes the political economy of trade-policy reforms in the BRIICS. It sets up a classification of the main factors influencing policy reforms, and makes cross-country comparisons. Section Four looks at "multi-track" trade policy, *i.e.* trade policy conducted, often simultaneously, on unilateral, bilateral, regional and multilateral tracks. Section Five signals lessons for future liberalisation and trade-related regulatory reform in the BRIICS, and more generally for developing countries.

1. The global climate for external liberalisation

> *To expect, indeed, that the freedom of trade should ever be entirely restored … is as absurd as to expect that an Oceana or Utopia should ever be established … Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.* Adam Smith, Wealth of Nations

There is much less appetite for further liberalisation and associated structural reforms now compared with the heyday of the Washington Consensus in the 1980s and 1990s. On the whole reforms have not been reversed, but their forward momentum has stalled. Governments are more sceptical and

defensive about further liberalisation; and there has been relatively little in the way of "second-generation" reforms (in domestic trade-related regulations and institutions) to underpin external liberalisation and boost competition.

The last two-to-three years have seen creeping protectionism (rather than major liberalisation-reversal), e.g. FDI restrictions to protect "national champions" in "strategic" sectors, and export controls on agriculture and other commodities to combat food and fuel inflation. Creeping protectionism has clearly accelerated since the onset of global economic crisis in late 2008. The intellectual climate has shifted decisively against free markets and in favour of greater government regulation. Regulatory responses, whether under cover of financial reregulation, fiscal-stimulus packages or renewed industrial policy, threaten to spill over to external protectionism. Early signs are selective import-tariff increases in some developing countries (including India, Indonesia and Russia), and a rise in anti-dumping actions in both developed and developing countries. This could escalate into, *inter alia,* more onerous FDI restrictions, (explicit or implicit) export subsidies for domestic manufacturers, further domestic regulatory restrictions on foreign services providers, and even greater use of trade-restricting product standards.

These trends apply to the West, and to most developing-country regions. In the developed world, pervasive agricultural protectionism continues, with an admixture of new protectionism directed against China. The West has no *grand project* for liberalisation in the early twenty-first century to compare with the Reagan and Thatcher reforms in the 1980s, or the EU's Single Market programme in the late 1980s and early 1990s. Eastern-European countries are suffering from "reform fatigue" after their accession to the EU. This is also the state of play in much of Latin America, Africa, south Asia and southeast Asia. In some countries, particularly resource-rich countries enjoying a revenue windfall, liberalisation has been put into reverse gear. Venezuela and Bolivia are conspicuous examples. Overall, protectionist flare-ups and lack of reform momentum in the West have reinforced liberalisation-slowdown outside the West.

The BRIICS fit well into this big picture. Russia is at one extreme. President Putin's second term coincided with soaring energy prices, a revenue windfall and fast economic growth. External liberalisation has stalled. It has gone backwards in energy sectors, which dominate Russia's external trade. The state has taken control of energy assets. Political direction and monopolistic practices crowd out market-based competition. Certain industrial sectors are protected and promoted in order to foster "national champions". Laws and administrative measures related to economic regulation are increasingly politicised and selectively applied.

The other BRIICS have seen liberalisation slowdown rather than liberalisation reversal.

Brazil's turnaround from a closed to a globally-integrating economy started in the late 1980s. Since the mid-1990s, there has been virtually no trade liberalisation and very little structural reform. The present Lula administration has prioritised macroeconomic stability and redistributive social policies, but it has made no advance on trade and FDI liberalisation and microeconomic reform.

South Africa is strikingly similar. Its opening to the world economy proceeded in tandem with its political transition from apartheid to multi-racial democracy. Both occurred in the mid-1990s. Since the late 1990s there has been no significant external liberalisation, and little structural reform either. In the last five years the internal balance of opinion has become more sceptical of liberalisation, and more favourable towards industrial-policy intervention.

India has had stop-go reforms since its decisive opening to the world economy in 1991. Bursts of reform took place in the early 1990s and in the early years of this decade. A "reform pause" took hold in the mid-1990s, and then again since 2004. The present Congress-led government has continued industrial-tariff reductions, but otherwise external liberalisation and structural reforms have stalled.

Indonesia saw fast liberalisation in the second half of the 1980s and early 1990s, and then again in 1998 due to an IMF structural adjustment package. The latter also contained far-reaching structural reforms. Since then there has been reform slowdown – a reaction to the Asian crisis and the perceived foreign imposition of the comprehensive IMF package. Overall protection has not increased, but there has been creeping non-tariff protection in some sectors, particularly in agriculture. New domestic regulations, especially in the labour market, have increased business costs.

China was the partial and conspicuous exception: external liberalisation proceeded apace before and after WTO accession in 2001, in what has been the biggest opening of an economy the world has ever seen. Very strong trade and FDI liberalisation took place in the 1990s, even after the Asian crisis and in the run-up to WTO accession. That was locked in by very strong WTO commitments, which provided the springboard for further liberalisation and regulatory reforms. However, domestic political conditions for further "WTO-plus" reforms are now more difficult. Industrial-policy interventions and restrictions on foreign investment, especially to protect favoured incumbents in the public sector, have increased since about 2006.

These are the broad trade-policy trends in the BRIICS. The second section of this chapter will go into more detail.

Why Washington Consensus scepticism?

A variety of factors accounts for liberalisation-scepticism, even before the global financial crisis took hold. There is much anxiety about globalisation, despite record growth across the world in the last five years. Macroeconomic crises provided windows of opportunity for fast-and-furious liberalisation in the 1980s and 1990s, but that has not happened since the Asian and other financial crises of the late 1990s. Indeed, the latter may have brought about a popular backlash, and certainly induced more caution regarding further liberalisation. Also, further liberalisation entails tackling border and, increasingly, domestic regulatory barriers in politically-sensitive areas such as agriculture and services. Inevitably, this runs up against more powerful interest-group opposition than was the case with previous waves of (mainly industrial-goods) liberalisation. Individuals matter too: the new century has not yet brought forth a Cobden, Gladstone, Erhard, Thatcher or Reagan to champion free markets or free trade.

Not least, the climate of ideas has changed, for prevailing weather conditions have become more inclement since the Washington Consensus reached its zenith only a decade ago. There is, now as before, an extreme anti-globalisation critique, a root-and-branch rejection of capitalism. But this is street theatre on the fringe. Of greater political importance is a more mainstream critique that accepts the reality of the market economy and globalisation, but rejects the comprehensive liberalisation associated (perhaps unfairly) with the Washington Consensus.

Critics point to tenuous links between liberalisation, openness, growth and poverty reduction; wider inequalities within and between countries that result from globalisation; the damaging effects of large and sudden trade liberalisation in developing countries; the renewed emphasis on aid to poorer developing countries, without which trade liberalisation will not work; the need for developed-country liberalisation while retaining developing-country protectionism; and the need for more flexible international rules to allow developing-country governments to pursue selective industrial policies, especially to promote infant industries.[1] Lastly, there is the pervasive fear – in the South as much as in the North – of being run over by an unstoppable Chinese export juggernaut.

1 See Stiglitz (2002), Chang (2002), Grunberg *et al*. (1999), Oxfam (2002), Rodrik (2001), Rodrik (1998), Sachs (2005).

It is important to confront these arguments head on; to defend liberalisation to date, while accepting that its record is mixed; to make the case for further liberalisation; and to identify the political conditions that might make it succeed. Protectionism and industrial-policy intervention have mostly failed across the developing world: history, not just theory, should be a warning not to go down this route again.

First, in-depth country studies by the OECD, NBER and World Bank, going back to the 1970s and 1980s, suggest strongly that countries with more liberal trade policies have more open economies and grow faster than those with more protectionist policies. These are much more reliable than superficial cross-country regression analyses (Bhagwati and Srinivasan, 1999; Lal and Myint, 1996). That said, even most of the latter point to large gains from trade liberalisation.[2] Calculations done by the World Bank and Angus Maddison point to about 25 "new-globalising" developing countries (the World Bank's term), with a total population of about three billion, that have registered massive increases in their trade-to-GDP ratios and real per-capita incomes, alongside big cuts in tariff protection. The - overwhelmingly Asian - new globalisers have also seen dramatic reductions in poverty and improvements in human-welfare indicators (such as adult literacy, infant mortality, life expectancy and nutritional intake) (World Bank, 2002: 34, especially Table 1.1; Maddison, 2003).

These trends contradict claims that globalisation "excludes" certain developing countries. Rather they support the argument that globalisation provides an enabling environment that some countries have taken advantage of and others have not. Political disorder, macroeconomic instability, insecure property rights, rampant government intervention and high external protection have kept about 50 countries "non-globalised" and thereby retarded their growth and development. Most of these countries are cursed with dysfunctional or failed states. None of this is "caused" by globalisation (Wolf, 2004: ch. 9; Henderson, 2004: 52-58).

Second, NGOs and developing-country governments have been clamouring for one-sided liberalisation in the Doha Round. Their interpretation of "development" in the Doha Development Agenda is that it behoves developed countries to liberalise in areas that are protected against labour-intensive developing-country exports. But developing countries should not reciprocate with their own liberalisation (Oxfam, 2002). What these critics fail to say is that developing countries' own protectionist policies harm them even more than developed-country barriers. The World Bank estimates that 80% of the developing-country gain from worldwide agricultural liberalisation would come from developing countries' liberalisation of their highly protected agricultural markets. It is unskilled rural labour - the poorest of the poor – who would gain most as such liberalisation would reduce the anti-agricultural bias in domestic economies (Ingco and Nash (eds.), 2004).

Third, the historical record is not kind to "hard" industrial policies of the infant-industry variety. Infant-industry success in nineteenth-century USA and Germany is contested. In east Asia, its record is mixed at best in Japan, South Korea and Chinese Taipei; non-existent in free-trade Hong Kong China and Singapore; and failed in southeast Asia (*e.g.* national car policies in Malaysia and Indonesia). In northeast Asia, there is scant evidence to show that protection of infants actually led to higher social rates of return and higher overall productivity growth (World Bank, 1993; Little, 1999). Southeast Asia's conspicuous success is in FDI-led electronics exports – a result of drastically lower tariffs and an open door to inward investment. China, like southeast Asia, has grown fast with the help of FDI-led exports, not infant-industry protection. Arguably, other factors – political and macroeconomic stability, competitive exchange rates, private property rights, openness to the world economy, education and infrastructure – were much more important to east-Asian success than "picking winners". Finally, infant-industry

2 See, for example, Sachs and Warner (1995), Winters (2004a) and Winters (2004b).

protection in Latin America, south Asia and Africa has been a disaster not dissimilar to industrial planning in ex-command economies.

2. Trade and FDI liberalisation in the BRIICS: recent experience and unfinished business

The BRIICS have been part of a policy revolution and a strong liberalisation trend in developing countries and countries in transition since the early 1980s.[3] Cross-border trade and capital flows – though not of people – have become freer. There is less discrimination between domestic and international transactions. Domestic prices of tradable goods and services are closer to world prices (though less the case in services than in goods). In terms of measures undertaken: Import and export quotas, licenses, state trading monopolies and other non-tariff barriers (NTBs) have been drastically reduced. Tariffs have been simplified and reduced. So have foreign-exchange controls, with unified exchange rates and much greater currency convertibility, especially on current-account transactions. FDI has been liberalised, with fewer restrictions on entry, ownership, establishment and operation in the domestic economy. And services sectors have been opened to international competition through FDI liberalisation, privatisation and domestic deregulation. Overall, trade and FDI in manufactured goods has been liberalised most; trade and FDI in services was liberalised later, and to a much lesser extent; and trade liberalisation in agriculture has lagged behind. Lastly, trade and FDI liberalisation has taken place in the context of wide-ranging macro and microeconomic market-based reforms – roughly the “stabilisation and liberalisation” package of the Washington Consensus as described by John Williamson.

This still leaves fairly high levels of protection around the world. There are pockets of developed-country protection – agricultural subsidies, peak tariffs and tariff escalation in agriculture and manufactures, anti-dumping (AD) duties, assorted regulatory barriers such as onerous product standards, and high restrictions on the cross-border movement of workers - that continue to damage developing-country growth prospects. But developing countries’ own protection on almost all these counts is much higher. Average applied tariffs in developing countries are more than double those in developed countries, with much higher bound rates in the WTO. Developing countries have become bigger users of anti-dumping actions than developed countries. Developing countries, with the exception of countries in transition and those that have recently acceded to the WTO, have far fewer multilateral commitments than developed countries in services. There has been a general increase in the use of technical, food-safety and other standards that affect trade, as indicated by the number of measures notified under the WTO’s TBT and SPS agreements.

Now turn to trade-policy trends in the BRIICS. The summaries for each country draw on the following tables and charts. Table 4.1 presents general trade and economic indicators for the BRIICS. Table 4.2 shows applied and bound tariffs (Table 4.2a has World Bank data and Table 4.2b WTO data). Table 4.3 shows the decline in average tariffs since the mid 1980s. Table 4.4 shows declining effective rates of protection for some BRIICS. Table 4.5 shows corresponding falls in NTBs since the mid 1980s. Figure 4.1 shows AD activity since 1995. Figure 4.2 has scores for regulatory restrictiveness on FDI. Figures 4.3 a-e have scores for trade restrictiveness in selected services sectors.[4] Tables 4.6 a-f list BRIICS's RTAs. Table 4.7 has rankings for doing business. Table 4.8 has rankings for trading across

[3] On the record of trade and FDI liberalisation as part of larger packages of market-based reforms in developing countries and countries in transition, see Williamson ed. (1993), Kuczynski and Williamson eds. (2004), Lal and Myint (1996), Dean (1995), Drabek and Laird (1998), Henderson (1998), Michalopoulos (2001). On trade-policy trends in Asia, see Sally (2007a), Sally (2006a: 181-233), Sally and Sen (2005: 92-115). Special Issue ‘Revisiting trade policies in southeast Asia’, Sally and Sen (eds.).

[4] These indices are based on initial work conducted by the OECD in 2005. Work is currently underway to refine the methodology and update the empirical estimates.

borders, and Table 4.9 rankings for governance. Figure 4.4 shows the increase in trade as a percentage of GDP for the BRIICS and Figure 4.5 the increase in total trade since 1980. Figure 4.6 shows BRIICS's shares of total world trade, with Figures 4.7 and 4.8 breaking that down into goods trade and services trade respectively. Figure 4.9 shows the increase in inward FDI since 1980. Figure 4.10 shows BRIICS's shares of world inward FDI stock. Finally, Figure 4.11 shows the increase in outward FDI since 2000.

***Brazil*[5]**

High walls of protection as part of import-substituting policies lasted for half a century. These fell from the late 1980s. There were three bouts of tariff reduction (1988-89, 1991-93, 1994). The nominal average tariff came down from over 50% in the mid 1980s to about 13% in 1995. It has hardly budged since, indicating virtually no trade liberalisation in the last fourteen years. Applied agricultural tariffs are lower than manufacturing tariffs. The effective rate of protection (ERP) in manufacturing came down to from 86% in 1987 to 18% in 1997. It is close to zero in agriculture. This still leaves distortions in Brazil's tariff structure, not least relatively high tariffs on imported intermediate products that keep local production costs high. Brazil bound all its tariffs at the end of the Uruguay Round, though at a high average of about 30%. Basic NTBs, especially quantitative import restrictions, came tumbling down alongside tariff liberalisation.

Liberalisation through the 1990s has resulted in a relatively open market for FDI and services. Constitutional restrictions on FDI were amended or removed alongside large-scale privatisation. That still leaves equity limits and other restrictions, notably in banking, oil, mining and air transport. Going by the OECD FDI regulatory restrictiveness index, Brazil is more open to FDI than Russia, India and China in manufacturing, across the range of services, and in overall terms. In key services sectors such as banking, insurance, distribution, and fixed and mobile telecommunications, it has lower levels of trade restrictiveness than Russia, China and India.

A plethora of regional and bilateral trade agreements (RTAs) and initiatives followed unilateral liberalisation. Mercosur, a regional customs union with a common external tariff, was founded in 1994. The same year saw the launch of negotiations for a Free Trade Agreement of the Americas (FTAA). Among other initiatives are negotiations for an EU-Mercosur free trade agreement (FTA); a South American Community of Nations; Mercosur agreements with the Andean countries, India and the South African Customs Union (SACU); and an India-Brazil-South Africa FTA.

Brazil has been even more active in the WTO than it was in the Uruguay Round of the GATT. It has been a lead player in the Doha Round, especially through its leadership of the G20 in agriculture. And it has been active in dispute settlement.

Overall, Brazil relied on unilateral trade-and-FDI liberalisation to open the economy. Since 1994, trade negotiations – bilateral, regional and multilateral – have almost totally substituted for unilateral liberalisation, but they have delivered virtually zero liberalisation.

Domestic regulatory barriers are now a much bigger obstacle to trade and FDI than classic border barriers. Brazil has a high-cost business environment – dubbed the "Brazil cost". It is ranked 113th overall for ease of doing business in the World Bank's 2007 Doing Business indicators – barely ahead of India and Indonesia, on a par with Russia and much worse than South Africa and China. Opening and closing businesses and the tax regime are particularly burdensome. On customs procedures (covered by the Bank's "trading across borders" indicators), Brazil ranks 70th in the world, ahead of India, South Africa

5 This section draws on Marconini (2007), Lattimore and Kowalski (2008).

and Russia but behind China and Indonesia. Exporting and importing costs are particularly high (above USD 1 000 per container). Brazil also suffers from "hard" infrastructural constraints; inadequate ports, roads and airports harm its bulk agricultural exports in particular.

Finally, Brazil has mediocre governance indicators, for example on government effectiveness, regulatory quality, rule of law and corruption. These are similar to India's rankings, better than those for Indonesia and Russia, slightly better than China's and worse than South Africa's.

Persistently bad business-climate and governance indicators show that structural reforms have not accompanied or followed external liberalisation in Brazil. The really serious deficits lie in pensions, taxation, labour markets and public administration.

Headline economic indicators show that Brazil has become much more integrated with the world economy as a result of external liberalisation. Its ratio of trade-to-GDP has gone up to about 26% - though this is low compared with the other BRIICS. Export growth averaged 22% *per annum* between 2002 and 2007, well above the rate of growth for world exports. Productivity growth in tradeable sectors has been impressive. Brazil now has a diversified export basket, ranging from crude oil and processed minerals (such as petroleum products, coke and ethanol) to metals, chemicals, rubber, plastic, agricultural commodities, food-and-beverage products and manufacturing (in which machinery and equipment feature prominently). That said, Brazil still accounts for only 1% of world trade. Inward FDI, having dropped from its peak in 2000, increased again from 2003, reaching USD 19 billion in 2006. Brazil has just under 2% of the world's IFDI stock.

In sum, external liberalisation has made the economy more efficient and allowed it to profit from very favourable global economic conditions in the last five years, and especially a China-driven resources boom. But it has not translated into Chinese and Indian growth rates, and significantly higher living standards for the broad mass of Brazilians. Growth has averaged 2.2% *per annum* since 1989, though it has climbed to 4-5% *per annum* in the last few years. That has much to do with entrenched domestic regulatory barriers and their "Brazil cost".

India[6]

India's retreat from the "licence raj" – its equivalent of Soviet-style central planning – began half-heartedly in the 1980s; but its decisive opening to the world economy dates back to 1991. Most border NTBs have been removed, as have internal licensing restrictions. Nominal applied tariffs came down from an average of 100% in 1985 to about 16% by 2005. The maximum tariff on non-agricultural goods is expected to come down to 10% after the 2008 budget. However, in agriculture, tariffs and NTBs remain much higher. The average applied tariff in agriculture is almost 25% (using World Bank data; 38% according to WTO data). The maximum MFN tariff stands at 268% (WTO data). India has bound 74% of its tariffs in the WTO at an average rate of 50%.

Despite big cuts, India's tariff structure remains more protectionist than those of the other BRIICS. Its trade-weighted tariff, at just under 15% in 2005, is almost thrice as high as it is for China and Indonesia. Intermediate inputs and consumer goods face relatively high tariffs. The effective rate of protection for manufacturing, though it has decreased, remains high compared with east-Asian countries and other BRIICS. In addition, the Government of India operates an extremely complex, bureaucracy-ridden system of duty exemptions, special establishment and investment regulations, and

6 This section draws on OECD (2007b), Narayan (2007), Hoda (2005).

Special Economic Zones (SEZs) to encourage exports. Also, India has become the world's most active user of AD duties, especially directed at Chinese imports.

FDI and services liberalisation have proceeded alongside the liberalisation of trade in goods. Manufacturing is fairly open to FDI. In terms of overall FDI regulatory restrictiveness, India is on a par with China, but it is more restrictive than Russia and Brazil. Professional services face especially high levels of protection. In banking, insurance, distribution, and fixed and mobile telecommunications, India is also more restrictive than Brazil, Russia and China. Restrictions include foreign-equity limits, the form of commercial establishment, and complicated and costly licensing procedures.

Like Brazil, India is very active in the WTO and is a lead player in the Doha Round. Its GATT and GATS commitments are weak. However, WTO rules post-Uruguay Round have induced significant changes in national practice, especially the removal of quantitative restrictions, and compliance with the TRIPS and TRIMS agreements.

India has become very active with FTAs. It has an FTA with Sri Lanka, and there is a timetable for a South Asian FTA (SAFTA). An India-ASEAN FTA is due to be completed by 2011, and India has separate FTAs with Thailand and Singapore. It is part of a BIMSTEC FTA initiative, which brings together several south-Asian and southeast-Asian countries. It has preferential trade agreements with SACU, Mercosur and Chile, and has plans for a separate trilateral agreement with South Africa and Brazil. Negotiations are ongoing with South Korea and Japan. Negotiations for an EU-India FTA started in 2006. Several other FTA initiatives are in the pipeline.

Like Brazil, India's trade and FDI liberalisation has come about almost totally through unilateral measures. WTO and FTA commitments have induced hardly any direct market opening.

India is placed 120th overall for ease of doing business in the World Bank's 2007 Doing Business indicators – the worst of the BRIICS except Indonesia, and well behind China and South Africa. It is ranked 79th overall for "trading across borders", close to Brazil but well behind China and Indonesia. India scores particularly badly in the time taken to obtain licenses, the time spent on and cost of importing and exporting goods, and the enforcement of contracts. India's governance rankings are similar to Brazil's. India's "hard" infrastructure is at least as bad as its "soft" regulatory infrastructure. It has appalling roads, airports and ports, and serious power shortages.

Trade and FDI liberalisation has been critical to India's recent integration into the global economy. The trade-to-GDP ratio has climbed rapidly to over 40% by 2006. Exports have grown by about 20% *per annum* since 2000. Trade in services has grown particularly fast, and is bunched in IT and IT-related sectors. Resource-based manufacturing features prominently in India's merchandise exports, though there is export potential in more skill-intensive products in chemicals, engineering, cars and car parts, and pharmaceuticals. India continues to underperform badly in labour-intensive exports.

Overall, India accounts for 1.5% of world trade (1.3% of trade in goods and 2.5% of trade in services) – well behind China. It is also well behind China in attracting FDI, accounting for 0.4% of global FDI stock by 2006. Inward investment flows have been increasing rapidly, however, reaching USD 17 billion in 2006. Outward FDI has also been increasing rapidly, reaching USD 10 billion in 2006.

In sum, in spite of major external liberalisation, India remains the most protected of the BRIICS. This is compounded by very high and largely unreformed domestic regulatory barriers. These include draconian employment laws, reserved sectors for small-scale industries (though this list has been reduced), high and differing barriers in the states (India being a federal system), extremely interventionist

agricultural policies (subsidies, price controls and other internal trade barriers), and very inefficient, corrupt public administration. Public-sector reform has hardly begun.

For these reasons, growth rates averaging over 6% since 1991, and 8-9% in the last few years, have not delivered the employment, poverty-reduction and human-welfare-improvement effect of comparable (or higher) growth rates in China and other parts of east Asia. Growth has come from capital- and skill-intensive sectors in manufacturing and services. It has primarily benefited the urban well-to-do and middle classes, but not flowed down appreciably to the poor in the rural areas - the bulk of India's population. For that to change, India needs labour-intensive growth in goods and services, and corresponding exploitation of its comparative advantage in labour-intensive exports. That has yet to happen.

***China*[7]**

"Reform" and "Opening" started in 1978, but the whirlwind transformation of China's economy belongs more to the post-1994 period. China undertook enormous trade and FDI liberalisation before and after WTO accession in 2001. China's WTO commitments are very strong. They exceed those of other developing countries by a wide margin. This holds for disciplines on border and non-border restrictions in goods and services. In addition, there are detailed commitments on transparency procedures to make sure trade-related laws and regulations are implemented, backed up by administrative and judicial-review procedures to which individuals and firms are supposed to have recourse.

The momentum of further liberalisation has slowed down in recent years, particularly in services and investment. There has been an increase in FDI restrictions and associated industrial-policy measures to support selected domestic sectors.

The simple average tariff has come down from about 40% in 1985 to about 9% today. All China's tariffs are bound in the WTO at very close to applied rates, with an overall average bound tariff of 10%. The maximum applied MFN tariff is 65% – higher than Brazil's but lower than the other BRIICS. China's weighted average tariff is about 5% – the lowest of all the BRIICS. This is partly due to numerous duty exemptions and other measures to encourage exports. Trade liberalisation also whittled down the protective impact of border NTBs to about 5% of imports on the eve of WTO accession. Overall, China's border barriers on goods trade have come down to southeast-Asian levels, and have been locked in by much stronger WTO commitments.

China's GATS commitments are very strong. On paper, the impact of WTO accession should be to cut services protection by half. In practice, though, China remains more protected in services than it is in goods trade. It is also generally more restrictive towards FDI. In terms of the OECD FDI regulatory restrictiveness index, it is on a par with India and more restrictive than Russia and Brazil. In terms of the OECD trade restrictiveness index in services, it appears more restrictive than Brazil, India and Russia in telecoms, less restrictive than India and Russia in banking, less restrictive than India in insurance, and less restrictive than India and Russia in distribution.

China has become an active member of the WTO, but in different ways to the two other developing-country big-hitters, India and Brazil. China has taken a conspicuous backseat in the Doha Round. Inevitably, it has been preoccupied with the implementation of its huge WTO commitments.

7 This section draws on Greene *et al.* (2006), Lardy (2002), Ianchovichina and Martin (2001), Mattoo (2003), and Bhattasali, Shantong and Martin (2004).

Other WTO members, and notably the USA, have complained that China has not adequately implemented its WTO obligations in key areas such as intellectual property rights, services and subsidies. China has also been active in the WTO's ongoing committee work, and in dispute settlement. It now faces several sensitive cases brought against it by the USA.

China is arguably the most important player in Asian FTAs. By 2006, it had nine FTAs on the books and was considering negotiations with up to 30 other countries. A China-ASEAN FTA is due to be completed by 2010. It has FTAs in place with Hong Kong China, Macau and Chile, and is negotiating with Australia, New Zealand and Singapore.

China's trade-liberalisation trajectory differs from that of the other BRIICS in one important respect. Like the others, it has had a unilateral-liberalisation thrust; but unlike the others (with the partial exception of South Africa), it has locked this in and extended it with very strong WTO commitments. China's FTAs have induced very little market opening to date.

China ranks 83rd overall for ease of doing business in 2007 - a low score, but a significant improvement over the past few years and clearly ahead of Russia, India, Brazil and Indonesia. For "trading across borders" it is way ahead of South Africa, Russia and India. It scores much better than the other BRIICS on the cost of importing and exporting. China's governance indicators are worse. It scores very badly on "voice and accountability". On other indicators, it is close to or a little behind Brazil and India.

China has climbed up the world rankings for trade and FDI with lightning speed. It has displaced Japan as the world's third largest trading nation, with 7% of world trade by 2006 (7.7% of goods trade and 3.5% of services trade). This is streets ahead of the other BRIICS; and even ahead of India in world services trade. China's trade-to-GDP ratio is 70% – much higher than Brazil and India, and extraordinarily high for such a hugely populous country.

China has a 2.4% share of global inward FDI stock, again ahead of the other BRIICS. It has been the second largest FDI recipient in the world since 2000. Inward FDI was USD 69 billion in 2006. China's outward FDI has also been increasing rapidly. It reached USD 16 billion in 2006.

China, unlike India, has successfully exploited comparative advantage in labour-intensive manufactures; and it has done so with a tight interlock between trade and FDI. China now accounts for close to 40% of manufacturing exports from developing countries. Multinational enterprises account for almost 60% of merchandise imports and exports. The fastest rates of export growth have been in finished consumer goods such as garments and toys, and in ICT products. In the latter category, as well as in assorted transport-and-machinery products, China has become the final-assembly point in east-Asian trade and FDI networks in parts and components, linked in turn to final export markets in the West. In contrast, services accounts for conspicuously low shares of China's total trade and FDI.

China has succeeded more than the other BRIICS: first in generating very high growth rates; and second in translating the latter into employment, poverty reduction and human-welfare improvement for a broad section of its population. High rates of saving and investment have driven this process, but trade and FDI have also been very important, especially in ramping up labour-intensive manufactured exports. China still has high regulatory barriers that waste resources, restrict internal trade and generally stifle domestic sources of growth. This is particularly pronounced in services. And it translates into over-reliance on exports and generates extra protectionism abroad. Tackling these barriers is the next big challenge.

Indonesia[8]

Indonesia had a liberalisation episode in 1966-68, but its decisive opening to the world economy took place from the mid 1980s to the early 1990s. Major trade and FDI reforms resulted in specialisation in labour-intensive manufactured exports, with corresponding inward investment. In 1998, in the midst of the Asian crisis, an IMF rescue package imposed further liberalisation. Tariffs and NTBs were lowered further; FDI was opened up, including in services sectors; and internal trade restrictions, such as domestic monopolies, were also removed. These measures have not been reversed, but there has been creeping protectionism in agriculture, textiles and steel, mainly through NTBs. Overall, enthusiasm for further liberalisation has waned.

Indonesia's simple average tariff came down from 27% in 1985 to 6.5% in 2005 – the lowest of the BRIICS. Nearly all tariffs are bound in the WTO, though at a high average of 37%. The maximum MFN tariff is 170%. The effective rate of protection declined strongly from the mid 1980s. This has been matched by an even steeper fall in border NTBs. Indonesia is the lowest user of AD measures among the BRIICS.

Indonesia is part of the regional scramble for FTAs, but it is less active than the more advanced ASEAN countries, Singapore, Malaysia and Thailand. It belongs to the ASEAN Free Trade Area (AFTA) and is involved in plans for an ASEAN Economic Community (AEC). It is also part of collective ASEAN FTA negotiations with China, Japan, South Korea, Australia-New Zealand, India and the EU. And it has a bilateral FTA with Japan.

Indonesia is more integrated into the WTO than most other developing countries, but it is less active compared with fellow ASEAN members Singapore, Malaysia and Thailand, and much less active than Brazil, India and China. It has been generally defensive in the Doha Round, and particularly so in agriculture. Its top priority has been to exempt “special products” such as rice and sugar from agricultural liberalisation.

Like the other BRIICS, Indonesia has relied primarily on unilateral trade and FDI liberalisation, with relatively little contribution coming from the WTO, AFTA and other FTAs. It stands out from the other BRIICS through the strength of IMF-induced liberalisation in 1998. This was clearly an episode of externally-dictated, not internally-generated, reform.

Indonesia also stands out as a high-cost economy. It has the worst overall score of the BRIICS for doing business in the World Bank's 2007 rankings. It scores particularly badly in the “starting a business”, “employing workers”, “registering property” and “paying taxes” categories. On the other hand, it has the best score among the BRIICS for trading across borders, with relatively good scores on export and import costs, time taken to clear goods through customs, and documentation. Indonesia's governance indicators are generally worse than the other BRIICS, except Russia. It scores particularly badly on political stability, the rule of law and corruption.

Indonesia's trade-to-GDP ratio is 60% – relatively high, but down from a pre-Asian crisis peak of 100%. Trade has recovered since the Asian crisis, but has not grown as fast as it has in the other BRIICS, except South Africa. Indonesia's share of world trade is under 1%. Inward investment dried up after the Asian crisis, but has recovered somewhat since 2004. However, inflows (under USD 6 billion in 2006) are much lower than in the other BRIICS, again except South Africa. Indonesia's share of global IFDI stock is only 0.2%. It also has the lowest outward FDI of the BRIICS.

[8] This section draws on Basri and Soesastro (2005), Basri and Hill (2004), Manning (2007).

Like India, Brazil and South Africa, Indonesia has a "jobless growth" phenomenon. Its overall growth rates have not got back to pre-Asian crisis levels, and unemployment is at a record high. Trade and FDI have suffered less from border barriers and much more from political and economic instability, policy volatility and a worsening domestic business climate. In particular, more restrictive employment laws have increased labour costs, and slowed down investment and employment generation. This has contributed to labour-shedding and stagnant productivity in textiles, clothing and footwear – the core export-oriented sectors of the economy.

South Africa[9]

South Africa is by far the smallest of the BRIICS by population, with the lowest levels of trade and FDI. It was a highly protected economy under apartheid. Protection began to decline in the early 1990s - the transition years leading up to multi-racial democracy in 1994. The transitional government's strong Uruguay Round commitments signalled the decisive opening of the economy, with the removal of many remaining NTBs, a simplification of the tariff structure and much lower tariffs. A quick burst of unilateral liberalisation, and then an FTA with the EU, followed. The door to FDI was also opened in the 1990s.

However, external liberalisation has stalled since the late 1990s. Liberalisation-scepticism has set in; and trade and related structural reforms have fallen way down the list of government priorities. Hard mercantilism prevails: unilateral liberalisation is off the agenda; and tariffs are held on to as bargaining chips in trade negotiations. Meanwhile, government attention has shifted to sector-based industrial-policy intervention.

The simple average tariff fell from almost 30% in 1985 to 8.5% in 2005 (5.4% when trade-weighted). The average bound rate in the WTO is 19.4%, with nearly all tariffs bound. The maximum MFN tariff is about 40%. The average effective rate of protection in manufacturing came down from almost 50% in 1993 to under 13% in 2004. Border NTBs have declined to low levels.

That said, South Africa still has a rather complicated tariff structure, with 38 MFN bands and 154 different tariff rates. Big pockets of manufacturing protection remain, notably in garments, automobiles and steel. South Africa is also the biggest developing-country user of AD measures after India.

The OECD's Index on FDI regulatory restrictiveness shows that South Africa is generally more open than China, India and Russia. Its highest levels of protection are in electricity and telecoms. State ownership and restricted competition prevail in transport, telecoms and the utilities.

South Africa is active in the WTO, though not in the same league as China, India and Brazil. It was initially quite pragmatic and flexible in the Doha Round, but it became more defensive after the Cancun Ministerial Conference in 2003. It is especially defensive on industrial-goods liberalisation.

South Africa is active in bilateral and regional trade negotiations. It is the mainstay of the South African Customs Union (SACU), which dates back to 1911. It is a member of the Southern African Development Community (SADC), which has plans for a customs union by 2010. It has FTAs with the EU and Mercosur. FTA negotiations with the USA stalled in 2006. Negotiations are in train for FTAs with India and Brazil.

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9 This section draws on Draper (2007), Edwards and Lawrence (2006), Alves, Draper and Edwards (2008), Flatters and Stern (2007).

South Africa is unusual among the BRIICS in that multilateral, not unilateral, liberalisation was the lever to open the economy in the mid 1990s. Subsequent opening came through unilateral liberalisation and the FTA with the EU. Other FTAs have hardly contributed.

Overall, South Africa scores considerably better than the other BRIICS for ease of doing business, though with a much worse score for "employing workers". But it scores very badly for trading across borders – the worst among the BRIICS after Russia. It scores much worse than China, Indonesia and even India on export and import costs and customs-clearance times. On the other hand, South Africa's governance indicators are the best among the BRIICS.

South Africa's trade-to-GDP ratio is about 60%. Imports and exports have risen consistently from the early 1990s in tandem with trade liberalisation. Trade growth has accelerated since 2003, driven by the commodities boom. Trade opening has also triggered productivity gains. As a consequence, South Africa better exploits its comparative advantage in capital-intensive primary and manufactured commodities. On the other hand, South Africa's export growth compares badly with the other BRIICS, other middle-income resource-based economies, and developing countries generally. Its share of world trade is 0.6% – the lowest of the BRIICS.

South Africa also has pitifully low inward investment - indeed virtually zero in several years, including 2006. It has a 0.6% share of global inward FDI stock. Outward FDI has increased in recent years, reaching USD 7 billion in 2006.

South Africa's core economic problems are very high unemployment, anaemic employment growth, low productivity, low standards of education and skills, and lack of diversification, especially into employment-generating services sectors. Trade liberalisation is often – and mistakenly – blamed for exacerbating some of these problems. On the contrary, remaining protection keeps business costs high and firms uncompetitive, in addition to taxing – especially poor – consumers. However, more damage is done by domestic (though still trade-related) regulatory barriers, for example in transport, telecoms, the utilities and customs procedures. Employment policies are the most damaging set of regulatory barriers; and these have become more restrictive. They act as a powerful deterrent to domestic as well as foreign investment. They are also intimately bound up with affirmative-action policies in the name of the black majority (termed BEE – Black Economic Empowerment).

Russia[10]

Russia had stop-go market reforms in the 1990s. Then there was a burst of reform in President Putin's first term. The macroeconomy was successfully stabilised alongside liberalisation and structural reform. Since 2003/4, however – corresponding with President Putin's second term – policy has gone in the reverse direction. Politics has become increasingly authoritarian; and it has been used by the state to nationalise energy assets. State-controlled enterprises have taken over what were privately-owned enterprises on very favourable terms. The three largest, Gazprom, Rosneft and Transneft, are near monopolies in the domestic market.

Russia's simple average tariff is 11.4% (9.6% when trade-weighted). This is middling by BRIICS standards. The maximum MFN tariff is 227% – the highest in the BRIICS. These headline figures mask a complex tariff regime and indeed slightly higher protection in recent years. There are high specific tariffs, especially on food products. Tariffs are also highly dispersed. There are, for example, 27 tariff lines with MFN tariffs of over 100% and 113 tariff lines with MFN tariffs of over 50%. The most highly protected

10 This section draws on Åslund (2006a), Tarr (2007), Tarr and Navaretti (2005), EBRD (2007).

sectors are bunched in food and light industry. They include sugar, footwear, leather goods, automobiles and civil aircraft.

In terms of overall FDI regulatory restrictiveness, Russia scores better than China and India but worse than Brazil and South Africa. In services, trade and FDI restrictiveness is especially high in banking, insurance, fixed telecommunications, electricity and air transport.

Russia's WTO-accession negotiations started in 1993, but they were only made a policy priority when President Putin took office in 2000. WTO accession has slipped down the priority list since 2004, corresponding with more statist policies at home. Russia has concluded bilateral market-access negotiations with all bar one of the WTO members in its Working Party. A few issues in terms of bringing Russian laws and regulations into line with multilateral rules remain unresolved. These concern agricultural subsidies, export tariffs, enforcement of intellectual-property rights, technical regulations and food-safety standards, and disciplines on state-owned enterprises.

Russia has hardly any cross-regional PTAs and is much less active compared with the other BRIICS on this front. That is largely because it is not yet a WTO member. WTO membership will probably trigger many new PTA negotiations, possibly including an FTA with the EU. Within the ex-Soviet Union, however, Russia has negotiated over 20 000 preferential arrangements with newly-independent neighbours since the early 1990s. Russia, Belarus and Kazakhstan have agreed to form a customs union.

Russia scores badly for ease of doing business – roughly in the same bracket as India, Brazil and Indonesia. It has the BRIICS's worst overall score for trading across borders. It ranks particularly badly for customs clearance and the cost of importing and exporting. Russia's governance indicators are the worst among the BRIICS.

Russia's trade-to-GDP ratio is 55%. It has been volatile since the 1990s, and has been declining in recent years. Trade has increased rapidly since 2001, fuelled by soaring commodity prices. Russia's share of world trade is 2% – the second highest in the BRIICS but still far behind China. Inward FDI has increased significantly in the last five years, reaching USD 30 billion in 2006, though it is highly concentrated in resource-based sectors. Russia has a 1.6% share of global inward FDI stock. Outward FDI has also increased, reaching USD 18 billion in 2006.

Energy and other commodities account for 85% of Russia's exports. Raw materials – mainly oil and natural gas – account for 60% of exports, and metals and chemicals for another 25%. Russia is the world's largest exporter of natural gas, and its second largest oil exporter. It has the world's largest natural gas reserves, the second largest reserves of coal and the eighth largest reserves of oil. Reliance on commodity exports has increased in the last few years.

Russia has enjoyed macroeconomic stability and high growth this decade, in stark contrast to chaos and poor economic performance in the 1990s. This is thanks largely to the global commodity boom. But the role of the state has increased in both internal and external commerce. Property rights have become more uncertain since the nationalisation of energy assets. Laws are opaque, non-uniform, and often applied unpredictably and arbitrarily. Resulting distortions have decreased the rate of investment and productivity in energy sectors. They have also cramped growth and innovation in non-energy sectors. All this bodes ill for Russia, especially if and when commodity prices start to decline.

3. Political economy and trade-policy reforms in the BRIICS

The politics of economic-policy reform is as much about distribution as it is about wealth-generation. This is true of international politics; it is even truer of domestic politics. Shifts in trade policy – from protection to openness or vice versa – trigger redistribution of gains and losses between regions (especially between rural and urban areas), sectors of the economy (agriculture, industry, services), classes (owners of capital, educated and skilled workers, semi- and unskilled workers), and even between ethnic groups. Such disruption, especially in the short-term, can be particularly unsettling in developing countries with political instability, corrupt elites, wide disparities in wealth and influence, meagre safety nets, ethnic divides and generally brittle institutions. Hence trade and other forms of liberalisation take place in a snakepit of messy and sometimes poisonous politics.

What are the determinants of trade-policy reform, especially in the direction of liberalisation? What follows is a simple taxonomy of relevant factors: a) circumstances, especially crises; b) country size; c) interests; d) ideas; e) institutions; f) factor endowments; g) foreign policy and international politics. (Box 4.1 summarises the political-economy factors driving trade-policy reforms in the BRIICS.)

a) Circumstances/crises

Events, dear boy, events. Harold Macmillan

When a man knows he is going to be hanged in a fortnight, it concentrates the mind wonderfully. Dr. Johnson

The practical politician, official or businessman knows that choices are dictated by responses to often unanticipated events. In reality, major episodes of economic-policy reform have mostly taken place in response to political and/or economic crises. A macroeconomic crisis, with symptoms such as extreme internal or external indebtedness, hyperinflation, a terms-of-trade shock, or a severe payments imbalance leading to a plummeting currency, provides the classic backdrop. Sometimes this is combined with a political crisis, whose most dramatic expression is a change of political system (from authoriarianism or totalitarianism to democracy or vice versa).

An economic crisis, with or without political system-change, is when "normal politics" is suspended, and when a period of "extraordinary politics" can provide a window of opportunity for thoroughgoing reforms (that would not be possible in "normal" political circumstances) (Haggard and Williamson, 1993: 527-596; Balcerowicz, 1995). Examples are legion: Chile in 1973/4; Mexico in 1986, followed by other Latin American countries in the late 1980s and early 1990s; several African countries in the 1980s and 1990s; Sri Lanka in 1977, followed by other south-Asian countries in the 1990s; eastern Europe and the ex-Soviet Union in the early 1990s; Australia and New Zealand in 1983/4.

The BRIICS mostly fit this pattern. By the late 1980s, Brazil was in the throes of external debt and hyperinflation, with a discredited military dictatorship. Economic-policy reform got going alongside the transition to full democracy. The first democratically-elected president after military rule, Fernando Collor de Mello, pushed through the first major installment of tariff liberalisation. The last major installment was part of President Cardoso's Plano Real for macroeconomic stabilisation in 1994.

India's big burst of external liberalisation, in 1991-93, was linked to macroeconomic stabilisation, both set against the backdrop of an extreme balance-of-payments crisis in 1991. Indonesia's switch to market-oriented policies came after the military coup in 1966; but its decisive external opening came in the 1980s, following a plummeting oil price and escalating external debt. The next big wave of liberalisation had to wait for the Asian crisis in 1997/8. South Africa's opening in the mid 1990s took

place following the collapse of the apartheid economic and political systems and alongside the transition to multi-party democracy. The Rand crisis of 1996 induced a further bout of trade liberalisation.

Russia’s first stabilisation-and-liberalisation attempts were triggered by the collapse of the command economy and Communist Party rule. But they were partial, fitful and much less successful than the twin political and economic transitions in east-central Europe and the Baltic states. The currency crisis in 1998 and the election of President Putin put Russia on the path to macroeconomic stabilisation and further liberalisation. The higher priority given to Russia joining the WTO bolstered the liberalisation agenda.

China is exceptional. Its reform path since 1978 has been gradual; it has not been dictated by political or economic crisis. The big external opening from the early 1990s was not crisis-induced; rather it built on the incremental reforms of the 1980s and followed the “reform pause” of 1989. In this respect, China's gradual, incremental reforms resemble those of the northeast and some southeast-Asian Tigers.

However, the crisis explanation cannot be taken too far. First, a crisis can precipitate swings both ways: sometimes towards liberalisation; sometimes the other way, as happened during the Depression in the 1930s, and, to a lesser extent, in the 1970s after the first oil-price shock. Second, different governments act in different ways in response to similar external shocks. Third, a crisis might trigger some reforms, but it is no guarantee of the sustainability of those reforms, nor of further reforms down the line. That is one key difference between east-central Europe and the Baltic states, on the one hand, and Russia and other parts of the ex-Soviet Union, on the other. Last, there are counter-examples of gradual, but cumulatively substantial, reforms without a sudden crisis as a triggering mechanism. That is, roughly, the east-Asian record.

Why have some countries sustained reforms while others have not? Why have some gone farther than others? What happens to a reform programme post-crisis, when “normal” political and economic conditions return?

The BRIICS’s experience “post-crisis” points to the limits of crises as an explanation of *continuing* reforms, beyond short-term shifts. Above all, it shows how difficult it is to take liberalisation farther, especially into domestic regulatory territory, after a crisis has been overcome and in a relatively benign macroeconomic environment.

Brazil has not seen external opening since the mid 1990s. The currency crisis in 1998 did induce another macroeconomic stabilisation package, but not further liberalisation or structural reform. South Africa’s external liberalisation has been stuck since the late 1990s. India has seen stop-go reforms since 1993; and they have been more “stop” than “go” since 2004. Indonesia has been reluctant to liberalise since the Asian crisis, and it has seen creeping protectionism at the margin. This has been reinforced by the messy transition to democratic politics. China accelerated its reforms right up to WTO accession in 2001; and its strong WTO commitments spurred further reforms afterwards. However, there are now signs of reform slowdown in certain areas.

In all these countries, post-crisis reform slowdown has not extended to the reversal of previous liberalisation. Russia is the exception. Reforms have been reversed in that the state has taken direct or indirect control of energy assets, and imposed monopolistic or oligopolistic conditions in these crucial sectors of the economy. That has inevitably spilled over into Russia's international trade and foreign (inward and outward) investments. Protection has also been maintained for “national champions” in certain manufacturing and services sectors. All this has occurred in the context of more authoritarian (certainly less “liberal-democratic”) politics, and a rosy economic environment perfumed by rising commodity prices.

It may not seem urgent to pursue liberalising reforms in "normal" conditions, especially after so much reform heavy-lifting has been done. But complacency is dangerous. It means the economy continues to live off reforms accomplished some time ago. Reforms needed to make the economy flexible and adaptable to changing global conditions, and resilient to unanticipated shocks, are neglected. Meanwhile, distortions and rigidities build up. A future crisis is then the trigger for long overdue reforms. These come at a much higher political, economic and social cost than would otherwise be the case (OECD, 2007a).

Depending on a crisis for reform is myopic, and ultimately crazy, policy. It is far better to nurture a culture of permanent, incremental and mutually reinforcing reforms. But that is terribly difficult in practice. Still, star reformers such as Chile, Australia and New Zealand show that it can be done. All three have followed up crisis-induced first-generation reforms with deeper second-generation reforms rolled out over almost two decades (Bowen, 2007; Sandrey, 2007; Herreros, 2007). These, however, are small open economies where the reform imperative is stronger than in medium-sized and large economies. The BRIICS are in the latter category.

Now the global economy faces another crisis. How the BRIICS respond – China in particular – matters greatly. Ideally, the BRIICS would use this crisis as a window of opportunity to undertake the extra liberalisation and structural reforms they avoided up to 2008. But early reactions have been defensive. The danger is that creeping protectionism will accelerate, even to the extent of creating a tit-for-tat protectionist spiral and reversing previous liberalisation gains. The short-term challenge is to contain such threats. The medium-term challenge is to revive a sensible liberalisation and regulatory-reform agenda.

b) Country size

Generally. small countries reliant on the world economy have liberalised farther and faster than bigger countries. This is the case in the OECD and the developing world. Ireland, Chile, Australia, New Zealand and Estonia (among other east-central European and Baltic countries) stand out as very strong reformers. So do Hong Kong China and Singapore, with long traditions as free-port city-states. Sri Lanka pioneered liberalising reforms in south Asia, before ethnic conflict compromised economic prospects from 1983. Mauritius and Botswana stand out in Africa.

It is generally believed that the economics and politics of reform in small countries are easier. Larger countries have more differentiated economies. They are less reliant on the world economy and have more inward-looking, protectionist-inclined interests. That translates into more complicated politics. But big countries are not pre-programmed to avoid reforms or do them sluggishly. China is the most populous country on Earth, but it is arguably the strongest reformer among the BRIICS. Other BRIICS have more mixed records compared with some smaller countries in their respective regions, but they have all reformed substantially compared with their pre-reform starting positions.

c) Interests

A good cause seldom triumphs without someone's interest behind it. John Stuart Mill

Mainstream economists, following Adam Smith, tend to rely on an interest-group explanation of trade politics. Free trade is the optimal policy in most circumstances (they say), but protection more often the result, because organised rent-seeking interests demand protection, and politicians and officials supply it. The benefits of free trade are diffused over the broad majority of consumers, but its costs bear down disproportionately on minority producer interests. The latter, not the former, have the incentive to organise for collective action (Olson, 1971; Krueger, 1974: 291-303). In reality, "iron quadrangles" of

politicians, bureaucrats, employers and unions imposed a straightjacket of protection in developing countries from the 1930s to the 1970s. Mostly this benefited capital-intensive, unionised, urban manufacturing industries producing for the domestic market, at the expense of agriculture and tradable sectors. India's license raj was its most notorious incarnation. In many countries, a crisis was used to overcome interest-group opposition and push through liberalising reforms (as happened in India in 1991).

But what role do interest groups play after an initial burst of external liberalisation, and in post-crisis conditions when "normal" politics returns? Here the picture differs across countries and regions. In some parts of the world, protectionist coalitions have halted or slowed down liberalisation. This is the case in Russia, Ukraine and other parts of the ex-Soviet Union. Elsewhere, radical opening has triggered major economic shifts in favour of sectors exposed to the world economy. Traditional protectionist interests have been weakened, and countervailing coalitions have emerged. The latter comprise exporters, users of imported inputs, multinationals with global production networks, and cities and regions seeking to be magnets for trade and FDI. These interests lobby for the maintenance and extension of open trade and FDI regimes.[11] This has happened in strong-liberalising countries in east Asia, eastern Europe and Latin America. It happened in Australia and New Zealand from the early 1980s. It is also evident, though less pronounced, in south Asia, including India after the 1991 reforms.

Now turn to organised interests in trade policy in the BRIICS.

In Brazil, business associations, trades unions and NGOs are more active in trade negotiations, especially since the FTAA (Free Trade Agreement of the Americas) initiative in 1994. The main union federation, the CUT, is defensive, particularly to protect manufacturing industries built up during Brazil's decades of import substitution. Employers in these sectors as well as other manufacturing firms are grouped in the powerful National Industry Confederation (CNI). Here protectionist interests coexist with expanding export-oriented interests. Most strikingly, Brazil's agricultural sectors (such as sugar, corn, beef, poultry, soya and cotton) have become strongly export-oriented as a result of trade liberalisation, and are correspondingly much better organised and mobilised. They have even created a research institute devoted to trade negotiations. Brazil's services sectors, in contrast, are weakly organised and have no national representation. Agricultural, manufacturing and services interests come together in the Brazilian Business Coalition, which is dominated by the CNI (Marconini, 2005: 9-11).

Like Brazil, South Africa has a vibrant society with an array of interests engaged with this-or-that trade-policy issue. Some NGOs are active. The powerful national union federation, COSATU, an ally of the governing ANC, is generally sceptical about trade liberalisation and especially protectionist in manufacturing. Business is divided. Protectionist interests are bunched in manufacturing (especially garments and automobiles) and the public sector (*e.g.* state-owned enterprises in telecoms, utilities and transport). The big mining houses (who are members of Business Leadership South Africa) are export-oriented with multinational production. Export-oriented agriculture is also well organised. There are private-sector services providers expanding across Africa, but they are weakly organised. Organised business, COSATU and the government come together in NEDLAC (the National Economic Development and Labour Council) to formulate collective positions for trade negotiations. Overall, South Africa's open-economy business interests are not that active in promoting their trade-policy preferences. They are overshadowed by COSATU and more defensive business interests (Draper, 2007).

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11 Ricardo-Viner and Hecksher-Ohlin models of comparative advantage are used to explain interest-group activity pro and contra free trade in different countries with different factor endowments. See Frieden and Rogowski (1996) and Rogowski (1990).

In Indonesia, the transition from authoritarianism to democracy has not made a big dent into traditional patron-client relations, that is, "crony-capitalist" networks uniting politicians, officials and rent-seeking businessmen. But it has opened up public space for interests who were previously repressed, notably independent unions and NGOs. Some have become active in trade policy. That Indonesia has in common with Brazil and South Africa. Its newly-enfranchised trades unions and NGOs are generally inclined towards protection. In agriculture, such pressure is exerted in the name of rural livelihoods and "food security", though its beneficiaries are rent-seeking producers rather than poor farmers. Trades unions and NGOs have had greatest success in tightening up employment legislation and its enforcement. This has benefited a small minority of workers in the formal sector but restricted employment possibilities for the majority, including in export sectors. Indonesia's export-oriented interests are weakly organised and overshadowed by protectionist lobbies (Basri and Soesastro, 2005: 10-12; Manning, 2008).

India's culture of democracy has long accommodated lively and diverse interest-group activity. In trade policy, such activity sprang to life after the Uruguay Round. Trades unions remain very protectionist. Their fortress is extremely restrictive employment laws that make it unviable for firms to take on new workers beyond a certain size. Unions represent a tiny minority of workers in sectors that were long protected under the licence raj. In manufacturing, there are only six million workers in the formal sector, in a total employable population of 450 million or more. State-owned enterprises, for example in power, energy, infrastructure, agriculture and financial services, are also bastions of protection.

India's private sector, in contrast, has changed since the opening of the economy from 1991.[12] It was dominated by long-established conglomerates who benefited from the license raj. The two main industry associations, the CII (Confederation of Indian Industries) and FICCI (Federation of Indian Chambers of Commerce and Industry) were strong defenders of protectionism. Now the landscape is more varied. There remain influential protectionist interests in manufacturing. But India's leading business houses – some long-established, like the Tatas, others newer on the scene, such as Reliance, Mittal and Bharthi – have restructured, expanded exports and are investing in production abroad. Many still lobby for protection, but in more muted form given their wider international interests. This is reflected in the changing positions of the industry associations – more pronounced with the CII, which represents the big firms, less so with FICCI, which houses more inward-looking medium-sized firms. CII and FICCI, given the mixed interests they represent, tend to be defensive in trade negotiations, but somewhat more flexible on unilateral liberalisation.[13]

Finally, India's stellar IT firms, notably in software and business-process outsourcing, are very open-economy oriented. They operate in a far less regulated policy environment compared with other sectors, have myriad links with foreign multinationals, and have fast-expanding exports and foreign investments. They are represented by NASSCOM.

Interest-group activity in China and Russia, with authoritarian or semi-authoritarian political systems, differs from that in the other BRIICS, which are functioning democracies. Independent trades unions, NGOs and business associations are either repressed or exercise self-censorship, muted criticism and loyal followership of government policies.

China's strongest protectionist interests are state-owned industrial enterprises and services providers. But its massive opening to the world economy has rapidly created open-economy interests.

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12 The following comments are based on discussions with industry representatives and government officials in India.

13 See, for example, CII (2006) and CII (2007).

Foreign MNEs, especially from the USA, have not only lobbied hard to further open the Chinese market; they have also lobbied their home governments effectively to contain protectionism directed at China. There is also a burgeoning class of local private-sector entrepreneurs with export interests. They are still weakly organised. Finally, there are large Chinese firms, either state-owned or state-linked and state-promoted, that are expanding abroad.

Russia's most powerful business interests are state-controlled firms, private-sector "oligarchs" with strong links to the state, and members of the state apparatus. These are the successors of the "nomenklatura" that had a stranglehold on government and the economy during Soviet times. They are especially powerful in energy sectors, which dominate Russia's trade and foreign investments. There are two main business associations, the Russian Union of Industrialists and Entrepreneurs (RSPP) and the Chambers of Commerce and Industry (TPP). Both were formed by directors of state-owned enterprises in the former Soviet Union. The RSPP is more "big-business" dominated than the TPP. Both blocked pro-market reforms in the 1990s. The RSPP went through a phase of supporting market reforms after 1998 when private-sector oligarchs joined it and took leadership positions in it. They actively promoted Russia's WTO membership. But, like the rest of Russian business, the RSPP has gone quiet on market reforms and WTO membership since 2003/4 for fear of offending a more powerful state apparatus (Åslund, 2006c).

What concluding generalisations can be made about organised interests in trade policy in the BRIICS? Interest-group landscapes have clearly changed with external opening, though less so in Russia than elsewhere. The balance has shifted towards open-economy interests. They form countervailing coalitions against protectionist interests, and decrease the risk of liberalisation reversal. But the picture is still variegated – inevitably so for such large, populous, complex economies and polities. Finally, there are pronounced differences among the BRIICS, not least resulting from contrasting political systems.

In the short-term, the biggest challenge is to prevent governments responding to the global economic crisis by strengthening domestic protectionist coalitions. That is a real danger, especially with the temptation to prop up state-owned enterprises (usually in capital or resource-intensive sectors) at the expense of both the domestic private sector and foreign competition. In the medium-term, the challenge is to harness open-economy interests to the wagon of further liberalisation, and especially to domestic regulatory reforms. Their stakes in structural, microeconomic reforms are becoming ever clearer. Previous liberalisation has spurred firm-level restructuring, export-orientation and overseas expansion. But firms remain hamstrung by high-cost domestic business environments, which they feel puts them at a disadvantage to foreign competitors with more salubrious business climates in their home markets. That also translates into defensiveness in trade negotiations. Structural reforms at home would lower business costs, boost the international competitiveness of local firms, make them less resistant to opening domestic markets to foreign competition, and translate into less defensive positions in trade negotiations.

Starting this virtuous cycle begins with reforms at home, not in the WTO or FTAs. In terms of interest-group activity, it implies a new and different political economy to that of hitching exporting interests to tariff concessions in trade negotiations.[14]

[14] The CII's official position is that domestic regulatory reform, especially on fiscal policy, infrastructure and labour markets, should be "calibrated" with the opening of the Indian economy to foreign competition. See CII (2006: 21). According to Marconini (2007), Brazilian business thinks similarly. Also see Bowen (2007) on Australian business pressure on the Hawke and Keating governments for microeconomic reforms following the first wave of liberalisation in the 1980s.

d) *Ideas*

It is the word in season that does much to decide the result. John Stuart Mill

Madmen who hear voices in the air are distilling their frenzy from the academic scribblings of some defunct economist or political philosopher. Indeed the world is ruled by little else.
John Maynard Keynes

It is always difficult to gauge the influence of ideas (or ideology) in policy.[15] But practical observation teaches us that the prevailing climate of ideas, interacting with interests and events, can entrench or sway this-or-that set of policies. A policy consensus on import-substitution, state planning and foreign aid was strongly embedded in developing-country governments and international organisations up to the 1970s. This was buttressed by a post-colonial political ideology of mercantilist state-building, and an interventionist consensus in development economics (Bauer, 2000; Lal and Myint, 1996). This set of ideas was overturned by what came to be called the Washington Consensus, which reflected sea-changes in political ideology and in development economics. The latter returned to classical and neoclassical foundations, emphasising market-based pricing, "outward orientation", the prevalence of "government failure" over "market failure", not to mention a dose of aid scepticism.

Now the climate of ideas is changing again. This does not yet presage a return to full-blown pre-Washington Consensus thinking. But there is more attention to market failure and government intervention, *e.g.* to ease back on further liberalisation, expand "policy space" and promote infant industries, defend "food security" and increase foreign aid. The global economic crisis has manifestly strengthened such thinking. The question is what effect this has, and is likely to have, on trade policies.

Much is made of technocrat-economists (dubbed "technopols" by John Williamson) as carriers of Washington Consensus ideas. They are often Western (especially US)-trained economists, many with IMF or World Bank experience (Williamson, 1993). The most famous example is that of the "Chicago Boys", Chicago-trained economists at the Catholic University in Santiago who controlled economic policy in Chile from the mid 1970s to the early 1980s (Herreros, 2007). Indonesia's "Berkeley Mafia" is another example. US-trained economists at the University of Indonesia held senior economic-policy positions for long periods during President Soeharto's rule. They were particularly influential in policy reform in response to crises (in the late 1960s and the 1980s), but their influence waned during periods of high growth and reform complacency (the 1970s, and then the 1990s up to the Asian crisis) (Basri and Hill, 2004).

Undoubtedly, technopols have been pivotal in specific circumstances. But, as a general explanation, their role in policy reform should not be exaggerated– a trap economists fall into when writing about fellow economists in policy-making positions. Economists are not Platonic Guardians; they are not immune to political pressures and the temptations of power; and this has often led to bad or indifferent decisions. India, for example, has an economic-policy "dream team" with excellent academic and research credentials, led by Prime Minister Manmohan Singh. But it has a reputation as a do-nothing team incapable of making basic policy decisions. The lesson to draw is that economists, and indeed other academic experts, should be on tap but not necessarily on top: they do not always make good high-level decision-makers.

At least as important as technopols are two other factors. First, "the vision thing" (to borrow a phrase coined by the first President Bush). Strong-reforming countries often have leaders and leadership

15 On "ideational" approaches, see Goldstein (1994).

teams who have a powerful vision of the future, with ambitious goals for growth, poverty reduction, job creation and global integration. East Asia stands out. The region has had national policy elites with a relentless focus on growth and prosperity, and with the will to mobilise resources and implement policies to achieve set goals.

Second, policy pragmatism that issues from past experience and a "demonstration effect". More important than ideology, perhaps, is the perception that past policies (for example macroeconomic profligacy and import-substitution) have failed, and that alternative policies have succeeded elsewhere. The experience of the east-Asian Tigers, of Chile in Latin America, and more recently of China, has exerted a powerful influence on policy-makers elsewhere, setting in train a process of copy-catting reforms.

The transmission of Washington Consensus ideas to policy reforms in the BRIICS has a mixed record. Technopols have had most influence in macroeconomic policy by occupying key positions in ministries of finance, central banks and presidential/prime-ministerial offices. This has translated into influence on liberalisation and microeconomic reform in crisis situations, but much less so post-crises. Liberal economists are less in evidence and less influential in line ministries and regulatory agencies, which control microeconomic policies in normal conditions.[16]

Russia is at one extreme. Liberal orthodoxy has prevailed in macroeconomic policy, but liberal reformers have been sidelined or removed in microeconomic policy. President Putin's rhetoric in his second term became increasingly anti-free market. He expressed his preference for price and trade controls, high tariffs, subsidies, infant-industry promotion, import-substitution, state support of national champions, and centralised micromanagement.

In Brazil, South Africa, India and Indonesia, Washington Consensus macroeconomic orthodoxy has also been more influential than ideas on liberalisation and microeconomic reform. South Africa has seen the pendulum swing towards selective industrial policies and away from trade liberalisation. This is reflected in the government's overarching economic-policy programme, ASGISA (Accelerated and Shared Growth Initiative), and the Department of Trade and Industry's NIPF (National Industrial Policy Framework). Meanwhile, the Ministry of Finance and the Reserve Bank have held the line on macroeconomic stability.

Finally, China retains a characteristically pragmatic mix of policy ideas. There is vague and faddish talk of a "Beijing Consensus". More relevant, the government has remained committed to macroeconomic stability and external liberalisation to achieve fast-paced global integration; but with an admixture of industrial policy to promote national champions in selected sectors. These are state-owned or state-linked firms; and they are promoted through a mix of subsidies, national standards, preferential government procurement policies and foreign-investment restrictions.

e) Institutions

In the broad sense, institutions are the steel-frame of the economy, its "formal rules and informal constraints", according to Douglas North. The political system springs to mind. So does the legal framework governing property rights and contracts. "Formal rules" comprise bankruptcy laws, competition laws, regulations governing financial markets and corporate governance, and much else

16 Barichello and Flatters (1991), for example, illustrate the difference between economists' influence on macroeconomic and microeconomic policies in Indonesia in the 1980s.

besides. "Informal constraints" are (often non-legal) traditions and norms influencing the intersecting worlds of business, government and the law.

Evidently, "institutions" are much broader and more difficult to pin down than "policies"; and the two are of course intimately connected. Historically-conditioned institutions, domestic and external, set the scene for government action, interest-group lobbying and the influence of ideas. They are the arena for policy choices and their implementation.

In the narrow sense, institutions are the organisational map of decision-making at the junction where politics and public policy meet business and society. On trade policy, this map is much more complicated than it used to be. Trade policy is no longer just about a clutch of border instruments, and the preserve of trade ministries. It is increasingly "trade-related", a matter of non-border regulation reaching deep into the domestic economy and its institutions. That is reflected in more complex multilateral, regional and bilateral trade agreements. This brings in agencies across the range of government, and many actors outside government as well. Now the management of trade policy involves: the division of labour between the executive, legislature and judiciary; the role of the lead ministry; the participation of other ministries and regulatory agencies on trade and trade-related policies; the WTO mission in Geneva; inter-agency coordination within government; the involvement of non-governmental actors, such as business and unions, and now including NGOs and think tanks; and the role of donors and international organisations.

Making generalisations about institutional constraints on policy choice, and how this might explain differences in national and regional economic performance over time, is notoriously difficult. Inasmuch as one can make generalisations about institutions and trade policy in developing countries – in the BRIICS in particular – here are a few.

First, to what extent must "good" institutions be in place before "good" policies can take hold and work their magic? Conversely, to what extent are institutions the result, rather than the cause, of policy choices? These are chicken-and-egg questions.

Writing from the 1990s rightly stresses institutional capacity, within the state and beyond it (World Bank, 1997; Rodrik, 2003). This fills in the institutional vacuum in studies on market-based policy reforms in the 1970s and 1980s. But the later literature sometimes goes too far in setting high institutional preconditions for reformist policies to work. The extreme is "institutions come first". The reality is a complex interplay between market-based policies, including trade and FDI liberalisation, and improving domestic institutions. Often policy reforms provide the stimulus for institutional change. As Adam Smith realised over two centuries ago, opening to international trade and investment triggers powerful incentives to improve infrastructure, public administration and the rule of law. Then producers and consumers can reap more gains from international commerce (Myint, 1977). China and Vietnam are shining successes of policy reform. But reforms in both countries, including opening to the world economy, began when institutions were very weak. That is also true of Indonesia in the mid 1960s, and Cambodia and Laos in the 1980s and 1990s.

Second, developing countries that have liberalised more and plugged themselves better into globalisation are more advanced in terms of per-capita income and human-welfare indicators. They have lower trade and FDI barriers, higher ratios of trade and FDI to GDP, and better-performing tradable sectors of the economy. They also have stronger institutions in the broad sense: better enforcement of property rights and contracts (*i.e.* the rule of law), better-functioning judiciaries and public administration, better-regulated financial markets, a stronger competition culture, less corruption and so on. This is the divide that separates Chile and a few other Latin American countries, eastern Europe, the northeast-Asian

and southeast-Asian Tigers, and a tiny handful of African countries (Mauritius, Botswana and South Africa), from the rest.

However, the BRIICS do not fit snugly into this pattern. China, India and Indonesia are still low-income countries with weak institutions (going by World Bank governance and business-climate indicators, in addition to other institutional indicators). Brazil and Russia are higher-income countries with relatively weak institutions. Where institutional improvements have taken place, they have lagged well behind big policy shifts – not least lower trade and FDI restrictions – and fast-paced global integration.

Third, what about the link between political systems and economic-policy reforms? Strong generalisations are difficult and misleading. In the BRIICS, as across the developing world, liberalisation has taken place under authoritarian and democratic systems. In the short to medium term, authoritarian regimes may find it easier to go further with reforms (China from the early 1990s, Indonesia in the 1980s). But in Russia, increasing authoritarianism under President Putin proceeded alongside partial reform reversal.

The complications of liberal-democratic politics – constitutional "checks and balances" to executive decision-making, freewheeling interest-group activity, media scrutiny, public discussion, multiple "veto points" - may slow down reforms. It becomes necessary to build reform-supporting coalitions among organised interests and the wider public, and forge consensus wherever possible. It increases the urgency to deliver results quickly for broad sections of the population, while compensating potential losers from reforms (for example through social safety nets, education and training programmes). Democracy also makes it difficult to pursue comprehensive reform, especially politically sensitive domestic regulatory reforms. Public-sector and labour-market reforms are perhaps the hardest nuts to crack, as reform experiences from India, Brazil, Indonesia and South Africa show. One last complication: Brazil, India and Indonesia are large, decentralised polities with much policy competence residing with state or provincial administrations. Brazil and India have federal constitutions.

In the medium to long term, a question marks hangs over authoritarian regimes due to arbitrary and opaque decision-making, and lack of popular legitimacy. That might compromise the durability of policy reforms. In reasonably stable liberal democracies, reforms, however slow and piecemeal, may be more durable due to their sanction in the political marketplace. That is the silver lining for Brazil and India, and perhaps for Indonesia and South Africa.

Fourth, take a look at institutions in the narrower sense of how trade-policy decision-making is organised. To start with general observations:

- In all the BRIICS, the capacity to formulate and implement trade policy has had to increase in line with the external opening of economies, the greater role of trade and FDI in GDP, and more complex and demanding international trade agreements. Greater demands on trade-negotiating capacity were felt from the late 1980s with the Uruguay Round negotiations and "new-generation" bilateral and regional FTAs.

- Strong and sustained trade-policy and wider economic-policy reforms were driven, more often than not, by powerful presidential or prime-ministerial offices, ministries of finance and central banks, insulated from blocking pressures in other parts of government and outside government. Ministries of finance were particularly important in driving trade liberalisation during crises, often overriding protectionist-inclined ministries of trade and industry. But, post-crises, the

former have retreated to their core macroeconomic functions, leaving line ministries and regulatory agencies to handle trade policy with much less oversight.

- As national economies have become more globally integrated, some regions *within* nations have risen to prominence. The coastal provinces in China, states in the south and west of India, and the Sao Paulo region in Brazil, come to mind. Sub-national policies to attract international trade and FDI have had more impact, not just in the regions concerned, but also in setting examples to be emulated in other sub-national regions.

Now turn to country detail. In Brazil, the Ministry of Finance spurred trade liberalisation in the early-to-mid 1990s, but not thereafter. The Ministry of External Affairs (MEA) rose to prominence and subsequently acquired control of trade negotiations, though regulatory and operational functions remain with the Ministry of Development, Industry and Foreign Trade. Organised business has become active in trade policy, but many business organisations have several complaints, directed particularly at the MEA. They say that it does not consult business seriously, gives too much weight to some NGOs and lacks transparency. Above all, they complain that, especially under President Lula da Silva, trade policy has too much of a "geopolitical" focus and does not focus enough on Brazilian commercial priorities (Marconini, 2007).

In India, trade policy is controlled by the Ministry of Commerce and Industry (MOCI). The Ministry of Finance was influential in liberalisation in 1991-1993, but less so thereafter. Organised business and NGOs have become more active since the Uruguay Round. Inter-agency coordination on trade policy functions badly, and state governments are largely left out of the loop (Sen, 2004; Narayan, 2007). Business input is still insufficient. The MOCI remains defensive in trade negotiations and ambivalent about unilateral liberalisation – rather at odds with the global integration of the Indian economy since 1991.

In China, the Ministry of Commerce (MOFCOM, formerly MOFTEC) is the central actor in trade policy. It tightly controlled WTO-accession negotiations, leaving other government agencies on the sidelines. Chinese trade-policy making is still very centralised, but there are more pressures on it post-WTO accession (Huang, 2004). The complexities of implementing WTO commitments, "WTO-plus" reforms and, more generally, the deeper integration of China into the world economy, all call for better integration of other actors - central-government agencies, the provincial governments and business - into trade policy.

Indonesia's trade-policy capacity is weak compared with China, India and Brazil. The transition to democracy has put extra pressures on it. The presidency is weaker; there are more divisions among cabinet members; the bureaucracy is constrained by multiple pressures; the parliament is more assertive and unpredictable; trades unions and NGOs are more active; and the decentralisation of power to the provinces has been messy (Manning, 2008). There are in-built tensions between the Ministry of Finance, which is responsible for tariffs and is more pro-liberalisation, and the Ministry of Trade and Industry and Ministry of Agriculture, which administer NTBs and are more protectionist (though the present trade minister, Mari Pangestu, is an economist with free-trade credentials). Thus trade policy can appear ad hoc and unpredictable, though the overall liberalisation trend has not been reversed (Basri and Soesastro, 2005).

In South Africa, trade-policy making reflects institutional flux in the transition from apartheid to multi-racial democracy. Policy-making is controlled by a strong, centralised executive, with a weak role for the parliament. The National Treasury, the cockpit of economic-policy reform overall and the guardian of macroeconomic stability, has remained on the sidelines of trade policy. The latter is run by

the Department of Trade and Industry (DTI), which has become more sceptical of trade liberalisation and inclined to industrial-policy intervention in recent years. The DTI's trade-policy capacity is shallow; it often seems dysfunctional; it is not transparent; and it is excessively sensitive to criticism (Draper, 2007).

Russia had a Ministry of External Economic Relations in the 1990s that consistently blocked trade liberalisation. It was abolished in 2000 and was replaced by the Ministry of Economic Development and Trade. The latter has since led and coordinated Russia's WTO-accession negotiations. It was headed by German Gref, one of the two leading market reformers in the Putin administration, until his dismissal in late 2007. Policy-making is controlled by a strong, centralised executive. Parliament acts mostly as a rubber-stamp for executive decisions. Russia's trade-policy capacity, while improving, remains weak, not least given that it is not yet a WTO member.

f) Factor endowments

Explaining the trajectory of policy reforms also has to factor in the relative mix of land (or natural resources), labour and capital in an economy.[17] We know from recent economic history that the star developing-country performers are from east Asia. These countries had different starting positions, but, at a certain stage of development, relative labour abundance allowed them to break into labour-intensive manufactured exports, which became an engine of growth and in turn aided poverty reduction and human-welfare improvement. China is the outstanding example. Of course this was not inevitable: it depended on the right policies and improving institutions. South Asia, with similar factor endowments, remained stuck on a low-growth, high-poverty path because it did not adopt market-based policies. That was true of India before 1991.

Latin American and African countries, on the other hand, are largely land- or resource-abundant and labour-scarce. Absent import-substitution policies, they are better able to exploit comparative advantage in land and resources – as Brazil, Argentina, Chile, Australia, New Zealand and even South Africa have done in agriculture since they liberalised; and as Brazil, Russia, South Africa and many other countries besides are doing in the recent China-driven commodities boom. Indonesia has exploited both resource and labour abundance, the latter particularly since external liberalisation in the 1980s.

Thus a simple story based on early 21st century comparative advantage would point to all-round gains from trade: for technologically-advanced and capital-abundant countries in the West; the labour-abundant countries of east and south Asia; and land and resource-abundant countries elsewhere.

But the political economy of factor endowments reveals a different and more problematic story. Arguably, land- and resource-abundant countries are at a structural disadvantage compared with labour-abundant countries. By plugging into global markets for manufacturing, and now labour-intensive services too, the latter seem to be on sustainable growth paths, notwithstanding occasional crises. Labour-intensive exports attract FDI (and the technology and skills that come with it), feed quickly into poverty-reducing, welfare-improving employment, and, more gradually, into better infrastructure and institutions. This creates and strengthens a constellation of interests to support open trade and FDI policies. This bodes well for China and India, and Indonesia to a lesser extent. All this depends, of course, on overcoming global recession and returning to open and growing markets for trade and investment in goods and services.

[17] Lal and Myint (1996) provide perhaps the best analysis of how factor endowments have influenced the political economy of post-colonial policy reforms in developing countries.

On the other hand, land- and resource-abundant countries, given their relatively high price of labour, seem to be crowded out of global manufacturing markets by east-Asian (especially Chinese) competition (Wolf, 2004). This leaves them dependent on cyclical and volatile commodities markets. Commodity booms induce “Dutch disease” and shift the terms of trade against non-resource sectors. FDI in resource-abundant countries tends to be capital-intensive and generate big rents in not-so-competitive market segments. Often the result is an FDI enclave, without an employment, technology or wealth spillover to the rest of the economy, but with big profits to distribute among a corrupt local business and political elite.

Thus most countries dependent on resources have the interest-group constellation to squander rents from resource booms, but not to spread wealth and improve governance and institutions. A retreat to protectionism, however, would repeat past mistakes and make matters worse. This is the dilemma inherent in the “China-in-Africa” phenomenon. It is an acute dilemma for Russia, given its extreme resource dependence. It is a challenge for South Africa and for Indonesia to a lesser extent. Brazil is better cushioned given its diversified trade structure.

However, there are notable exceptions to the “resource-curse” rule: Chile has successfully exploited comparative advantage in agriculture and resources (mainly copper) through liberal trade policies, while diversifying the economic base and improving institutions (Herreros, 2007). That is also true of Australia and New Zealand (Sandrey, 2007; Bowen, 2007).

To the complacent, these resource challenges seemed academic up to mid-2008, when commodity prices peaked. Since then they have plummeted. That raises serious questions about the capacity of resource-abundant countries to cope with a global economic downturn, and to position themselves for recovery. These questions extend to their vulnerable political economy.

g) Foreign policy and international politics

> *Unhampered trade dovetails with peace; high tariffs, trade barriers and unfair economic competition with war.... I will maintain faith in my belief that the security, peace and welfare of nations are indissolubly connected with friendship, fairness, equality and the maximum practicable degree of freedom in international trade.* Cordell Hull

Trade policy links down to national economic policies and institutions. But it also links up to foreign policy and international politics. A reasonably stable international political order is the categorical imperative for economic development. Without the global Pax - an orderly framework for international relations - there can be no security for international commerce.

The end of the Cold War and the collapse of the Soviet Union reshaped international politics. It was the catalyst for twin political and economic transitions in eastern Europe and the former Soviet Union. But it also reverberated elsewhere – nowhere more so than in India. India's foreign policy was gutted: it lost its “first friend”, the Soviet Union; and its leadership of the Non-Aligned Movement was meaningless. This brought on a foreign-policy transformation. India looked west to a *rapprochement* and closer relations with the USA, and in the second instance with Europe. It also looked east, first to southeast Asia and then to China. Closer engagement, looking east and west, started in the early 1990s, paused in the mid to late 1990s, and has been renewed and strengthened ever since. It corresponds with the timing of external liberalisation. Stronger security relations with the USA and other countries have proceeded in tandem with stronger commercial relations with the same countries. Arguably, India's foreign-policy shift is an important factor influencing its belated embrace of the world economy (Narayan, 2007; Baru, 2006).

China’s foreign-policy transformation began in the 1980s and accelerated in the 1990s. Its emphasis is on “constructive engagement” with the USA, Europe and emerging developing-country powers. China's “soft power” has been very effective in its east-Asian neighbourhood, though less so with Japan (not to mention Chinese Taipei). Its self-advertised “peaceful rise” is geared to regional political stability and steady integration into the world economy. Trade diplomacy, in the WTO and FTAs, is perhaps the most visible sign of China’s foreign-policy transformation.

Of all the BRIICS, Brazil has the tightest formal link between foreign policy and trade policy. The MEA leads and coordinates trade negotiations. These, in both the WTO and FTAs, are geared to achieving foreign-policy goals, such as Brazilian leadership in South America, and alliances with other “southern” powers, notably India, China and South Africa, to counterbalance US power.

South African foreign policy came out of its long apartheid isolation to prioritise closer relations with the West and a leadership role in Africa. Like Brazil, South Africa now has a stronger accent on South-South alliances, which strongly influences its WTO and FTA activities.

As for Indonesia, it should not be forgotten that economic-policy reform and opening to the world economy under President Soeharto took place in the context of close relations with the USA and an anti-communist US security umbrella for east Asia.

Finally, Russia’s trade policy has followed the swings of its foreign policy. The opening of the economy in the 1990s occurred alongside closer relations with the USA and western Europe. This seemed to be reinforced during President Putin's first term. But his second term has seen a distancing of relations with the West, and a more aggressive stance towards Russia’s “near abroad”, particularly through energy politics. Cutting off gas deliveries to neighbouring countries in mid-winter, with collateral damage to third countries, is symptomatic. It is part of Russia's assertion of “big-power” status. This is the context for more statist energy policies and ambivalence about further external liberalisation.

h) Preliminary summary

Box 4.1 summarises the political-economy factors driving trade-policy reforms in the BRIICS. In all the BRIICS save China, an economic crisis, sometimes combined with a political crisis, has led to a big opening of the economy. New open-economy interest-group constellations have emerged to counter traditional protectionist interests. Washington Consensus ideas have spread through technopols (though more influential in macroeconomic than microeconomic policy), leadership focus on growth (much more so in China than in the other BRIICS), and pragmatic emulation of successful policies elsewhere. In the BRIICS democracies, a party-political and wider public consensus, however partial and patchy, has gradually formed around reforms. Gradually improving institutions are better able to support and manage open-market policies, though they remain relatively weak in the BRIICS. Shifts in foreign policy have also encouraged external opening and closer relations with major trading partners. Russia is the major exception to these trends, given partial reform reversal.

Labour-abundant countries in east Asia, and now in south Asia, have the most promising political economy to support external liberalisation and global integration – China and India prominent among them. Resource-abundant countries in Latin America, Africa, the Middle East, Russia and other parts of the ex-Soviet Union, are now doing well in the China-driven commodities boom. But their political economy is problematic: their predatory governments and interest groups are geared more to squandering rents than to creating and spreading wealth sustainably. Among the BRIICS, Russia is particularly vulnerable.

Box 4.1. The Political Economy of Trade-Policy Reforms

	Crisis-induced liberalisation	***Country size (population)***	***Interests***	***Ideas (Washington Consensus)***	***Institutions***	***Factor Endowments***	***Foreign policy***
Brazil	Yes (1988/89-94). Political and economic system-change	Large	Diverse. Mixed preferences. Export-oriented business better mobilised, especially agriculture	Strong in macroeconomic policy, weaker in liberalisation/ structural reforms	Democratic politics. Federal system. Strong trade-policy capacity. MEA lead. Weak involvement of MOF except in crisis	Land/ resource abundant	Emphasis on South-South alliances to counterbalance US power under Lula
India	Yes (1991-93). Political continuity	Very large	Diverse. Mixed preferences. Business gradually more open-economy oriented, especially IT services	Ditto	Multi-party coalition politics. Federal system. Strong trade-policy capacity. MOCI lead. Weak involvement of MOF except in crisis	Labour abundant	Reorientation of policy from early 1990s. Look West (USA and Europe) and Look East (ASEAN and China)
China	No. Gradual reform. Political continuity	Very large	Mixed preferences. MNEs lobby effectively to contain protectionism	Strong across macro and microeconomic policy, weaker in structural reforms. Industrial-policy intervention mixed in. Overall policy pragmatism	Authoritarian politics. Strong trade-policy capacity. Centralised decision-making. MOFCOM lead	Labour abundant	Constructive engagement with major powers (esp. USA). Soft power in east Asia. Regional Stability
Indonesia	Yes (1966-68, mid 1980s, 1998). Political system-change 1998	Large	Diverse. Mixed preferences. Export-oriented lobbies relatively weak. More influence for unions and NGOs after Asian crisis	Strong in macroeconomic policy (Berkeley Mafia), weaker in liberalisation/ structural reforms	Democratic politics since 1998. Decentralisation to provinces. Weak trade-policy capacity. Institutional instability and policy-making divisions after Asian crisis	Resource/ labour abundant	Close relations with USA and US security umbrella during Soeharto period
South Africa	Yes (mid 1990s). Political and economic system-change	Medium	Diverse. Mixed preferences. Open-economy business muted. Protection-	Ditto. Industrial-policy intervention now more popular	Democratic politics. Decision-making centralised in Executive. Shallow trade-policy capacity.	Resource abundant	Reorientation of policy with end of apartheid. Leadership in Africa. Now more emphasis on

Box 4.1. The Political Economy of Trade-Policy Reforms

			seeking firms, unions and NGOs more vocal		DTI lead. Little MOF involvement		South-South alliances
Russia	Yes (1990s). Political and economic system-change. More authoritarian politics and partial reform reversal since 2003/4	Large	Energy interests very strong. Symbiotic links with the state. Monopolistic/ oligopolistic markets. The new nomenklatura	Ditto. Partial liberalisation reversal and more industrial-policy intervention	Authoritarian democracy under Putin. Recentralised decision-making. Shallow trade-policy capacity	Resource abundant	Colder relations with the West. Attempt to dominate "near abroad". Aggressive energy politics

4. Multi-track trade policy

Another way of cutting into trade-policy reform is to look at it on several tracks. Some reforms are carried out unilaterally; others reciprocally through (bilateral, regional, multilateral) trade negotiations, or in agreements with donors. Most developing countries now do trade policy on all these tracks concurrently, though the relative balance differs from country to country. Now turn to the main features of "multi-track" trade policy in the BRIICS. (Box 4.2 summarises multi-track trade policy in the BRIICS.)

a) Unilateral liberalisation

I trust the government…. will not resume the policy which they and we have found most inconvenient, namely the haggling with foreign countries about reciprocal concessions, instead of taking that independent course which we believe to be conducive to our own interests. ... let us trust that our example, with the proof of practical benefits we derive from it, will at no remote period insure the adoption of the principles on which we have acted.
Sir Robert Peel, announcing the repeal of the Corn Laws, House of Commons, 1846

Liberalise first, negotiate later. Mart Laar, former prime minister of Estonia

Compelling political and economic arguments favour unilateral liberalisation, with governments freeing up international trade and flows of capital and labour independently, not in the first instance via international negotiations. As any student of trade economics knows, welfare gains result directly from import liberalisation, which replaces comparatively costly domestic production and reallocates resources more efficiently, and spurs capital accumulation, economies of scale as well as longer-run dynamic gains such as the transfer of technology and skills.[18] Similar and related arguments apply to the liberalisation of inward investment and the cross-border movement of people.

[18] There is the theoretical possibility of (usually large) countries being able to exercise long-run market power in international demand for certain goods. This enables them to shift the terms of trade in their favour by means of an "optimal tariff". The corollary is that these countries should only lower tariffs if others reciprocate, in order to avoid worsening terms of trade. In reality, very few countries have such long- run market power. And retaliatory tariffs by other countries could nullify terms-of-trade gains. Thus – not for the first time – a neat theory turns out to have limited practical relevance. See Irwin, 1996: 106-115.

Such gains come quicker through own, unconditional liberalisation than through protracted, politicised and bureaucratically cumbersome international negotiations. This Nike strategy ("Just Do It!") can make political sense too. Rather than relying on one-size-fits-all international blueprints, governments have the flexibility to initiate policies and emulate better practice abroad in experimental, trial-and-error fashion, tailored to specific local conditions. In David Landes' words, it is "initiated from below and diffused by example." This was the preferred method of the classical economists from Smith to Marshall, and of the titans of mid-Victorian British politics (Sally, 1998).

In twentieth and twenty-first century conditions of democratic politics and vigorous interest-group lobbying, unilateral liberalisation is of course a much more difficult proposition than it was in the nineteenth century. But observers often forget that the recent trade-policy revolution outside the West has come more "from below" than "from above". The World Bank estimates that, between 1983 and 2003, about 65% of developing-country tariff liberalisation (a 21% cut in average weighted tariffs) has come about unilaterally, with 25% coming from the Uruguay Round Agreements and only 10% from preferential trade agreements (PTAs) (Figure 4.12). True, many governments liberalised reluctantly as part of IMF and World Bank structural adjustment programmes. But the strongest liberalisers have been unilateral liberalisers, going ahead under their own steam without the need for much external pressure. Prominent among them are the east-Asian countries, as well as Chile, Mexico, the east-European countries, Australia and New Zealand.

Unilateral liberalisation has been particularly strong in east Asia (see Figure 4.13 for unilateral tariff-cutting in selected countries). The bulk of trade-and-investment liberalisation by the first and second-generation Tigers of northeast and southeast Asia was done unilaterally. In the 1980s, the old ASEAN countries – including Indonesia - reduced import and inward-investment barriers simultaneously in order to attract Japanese manufacturing multinational enterprises (which relied on imports of capital goods and components for labour-intensive local processing and assembly of goods for export). This is how they inserted themselves into regional and global manufacturing supply chains, first in electronics and then spreading to other industries (*e.g.* sport footwear, televisions and radio receivers, office equipment, electrical machinery, power and machine tools, cameras and watches, and printing and publishing). In the 1990s, China also undertook unilateral and simultaneous trade and inward investment liberalisation, and thereby inserted itself as the cheap-labour, final-assembly stage in these expanding supply chains. This in turn triggered additional unilateral liberalisation by the southeast-Asian countries. More openness to trade and FDI allowed the more advanced ASEAN countries to move up to higher-value production of parts and components in "Factory Asia", while more labour-intensive production migrated to China, and more recently to Vietnam. To repeat: these measures were not brought about by GATT/WTO, AFTA or other FTA agreements; rather they were unilateral responses to market conditions, resulting in market-led regional and global integration (Baldwin, 2006a and 2006b; Athukorala, 2006).

The BRIICS fit the general pattern more or less: trade and FDI liberalisation has been primarily unilateral. That applies to Brazil. In India, the IMF package in 1991 induced some trade opening, but liberalisation thereafter was genuinely unilateral: it was not the result of donor pressure or international trade negotiations. Indonesia liberalised unilaterally in the 1980s, but liberalisation after the Asian crisis was the result of IMF conditionality. Russia's opening in the 1990s was a combination of IMF conditionality and unilateral measures. Unilateral trade-related reforms followed in President Putin's first term, but they were much influenced by WTO-accession negotiations.

South Africa relied more on trade agreements than the other BRIICS for its external opening. It had a burst of unilateral liberalisation in 1996 in response to the Rand crisis, but before that liberalisation came via its strong Uruguay Round commitments. These, however, were much more the lever used by the

transitional government to open up the economy than the result of haggling over reciprocal concessions. Then, in the late 1990s, there was further opening through the FTA with the EU.

What about China? True, the WTO played a larger part in opening the Chinese economy than in the other BRIICS except South Africa. But the main liberalisation thrust was domestic, coming from the Beijing leadership. It used WTO-accession negotiations as a strategic lever to consolidate and accelerate national reforms. In fact, most of China's trade and FDI liberalisation was done unilaterally, before WTO accession. Its WTO commitments, and its pragmatic participation in the WTO after accession, can be read as more the consequence than the cause of its sweeping unilateral reforms.

China’s external liberalisation now matters most, for it is the biggest the world has ever seen, with the biggest spillover effect in Asia. Indeed, China is in many ways today what Britain was in the second half of the nineteenth century: the unilateral engine of freer trade. Granted, China is far from being the top dog Britain was in the nineteenth century. But it is now the most powerful signal-transmitter in Asia. China’s opening not only spurred southeast-Asian liberalisation pre-Asian crisis; it probably helped to prevent liberalisation reversal post-Asian crisis. It has also encouraged east-Asian countries to further liberalise at the margin post-Asian crisis – for fear of losing trade and FDI to China. Not least, China has probably had a knock-on effect on Indian opening to the world economy. India has recently accelerated its liberalisation of tariffs, and eased FDI restrictions in some services sectors. This has occurred outside trade negotiations, as was the case with previous Indian trade-and-investment liberalisation since 1991. Would this have happened, or happened as fast, if China had not concentrated minds? Probably not.

For other east and south-Asian countries to take advantage of the opportunities offered by China’s global integration, and overcome more-exposed weaknesses caused by protectionist policies and weak institutions, there has to be further liberalisation and regulatory reform. This is less likely to come about through the WTO, FTAs and regional institutions such as ASEAN and SAFTA, and more likely to result from unilateral measures by individual governments in response to internal and external conditions. That is the best prospect for east-Asian countries to integrate themselves better into, and reap the benefits from, expanding regional and global supply chains. And that is the best prospect for south-Asian countries to insert themselves into these supply chains.

That is not to say that China-induced unilateral liberalisation is a total solution. It is unlikely to induce further external liberalisation in the developed world, and least of all in the USA, EU and Japan. In the developing world, its results will inevitably be patchy and messy. Unilateral liberalisation has been more successful in manufacturing than in services and agriculture; and it has tackled border barriers much better than non-border regulatory barriers. For instance, unilateral liberalisation in east Asia has been strong in “fragmentation-based” manufacturing products that feature in global supply chains, as well as in labour-intensive consumer goods such as garments and toys. But it has been weaker in other areas of manufacturing, very uneven in services, especially weak in agriculture, and still has a long way to go with trade-related structural reforms in goods, services and investment. More generally, unilateral measures do not lock in liberalisation against future backtracking. They do not provide fair, stable and predictable rules for international commerce.

Finally, unilateral liberalisation has slowed down across the developing world, including the BRIICS. In Brazil and South Africa, trade policy has forsaken unilateral liberalisation and become totally reliant on trade negotiations. India continues incremental unilateral liberalisation, though at a slower pace than before. Indonesia's unilateral liberalisation has petered out. In China, it has slowed down post-WTO accession. In Russia, it has stalled and even gone into reverse gear. Now, with the onset of global economic crisis, unilateral liberalisation has effectively stalled, in the BRIICS and elsewhere. Unilateral protectionist measures have crept upwards, with the threat of further escalation.

On its own, therefore, unilateral liberalisation cannot slay protectionist dragons and solve international commercial conflicts. That leaves room for reciprocal negotiations and international agreements, *i.e.* for the WTO and FTAs.

b) Multilateral liberalisation

> *The great political virtue of multilateralism, far exceeding in importance its economic virtues, is that it makes it economically possible for most countries, even if small, poor and weak, to live in freedom and with chances of prosperity without having to come to special terms with some Great Power.* Jacob Viner

> *In recent years, the impression has often been given of a vehicle with a proliferation of backseat drivers, each seeking a different destination, with no map and no intention of asking the way.*
> The Sutherland Report

Given the realities of modern politics – interest-group lobbying for protection, ingrained mercantilist thinking, the perception that liberalisation hurts the poor and vulnerable – unilateral liberalisation is often difficult to achieve in practice. The rationale of "multilateralised reciprocity" is that GATT/WTO negotiations help to contain protectionist interests and mobilise exporting interests; and multilateral agreements provide fair, non-discriminatory rules for all. Perhaps the greatest utility of the WTO is that it provides a framework of rules to assist (mainly developing-country) governments that have strategically chosen to take their national economies in a market-oriented, globally-integrated direction. The accessions of China and Vietnam are textbook examples of how the WTO should work.

That said, the standard *raison d'être* for multilateral rules-based trade liberalisation was easier said in the old GATT than done in the WTO. In many ways the WTO is the victim of its own success; of the successful conclusion of the Uruguay Round and the huge transition from the GATT to the WTO.[19]

Multilateral liberalisation was successful during the GATT when the latter had a relatively slimline agenda, club-like decision-making dominated by a handful of developed countries (especially the USA and EU), and the glue of Cold War alliance politics. It has proved spectacularly unsuccessful in the WTO. Now, the WTO agenda, especially on non-border regulation, is technically more complicated, less amenable to the reciprocal exchange of concessions, administratively more burdensome and politically much more controversial; decision-making is a chaotic mess in a general assembly with near-universal membership; and the unifying glue of the Cold War has dissolved. The failure of the Doha Round (as of the time of writing) probably shows that future multilateral liberalisation will be elusive and modest at best.

Arguably, the best the WTO can hope for post-Doha Round is to lock in pre-existing unilateral liberalisation through binding commitments, and gradually improve the functioning of non-discriminatory multilateral rules. That is especially important to contain protectionism in the wake of the global economic crisis. But it implies scaling back ambitions and expectations. Market-access negotiations (to deliver extra liberalisation) should be more modest and incremental; and maybe trade rounds should become a thing of the past. There should be a shift of focus to safeguarding and improving trade rules. This is more important for most WTO members than extra multilateral liberalisation. Finally, to get business done, WTO decision-making should fall in line with political and economic realities outside Geneva. About 30 countries (counting the EU as one) account for almost 90% of international trade and FDI. That includes 20-25 developing countries. They should gather in plurilateral "coalitions of the

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19 The following argument draws on Sally, 2006c.

willing" to make key market-access and rule-making decisions, and correspondingly take on stronger commitments than the rest of the WTO membership. In other words, the WTO needs "variable geometry" in order to function effectively.

All the BRIICS save Russia (which is not yet a WTO member) should be active in a broad, informal WTO "first division" of 30 or so countries. South Africa and Indonesia are developing-country "middle powers" who can make a stronger contribution that the bulk of developing countries. But China, India and Brazil are the three developing-country "big beasts" in the WTO. They should exercise co-leadership alongside the USA, EU and perhaps Japan (if the latter can get its act together). Without that, nothing will move.

Now take a look at the BRIICS's record in the WTO.

Along with India, Brazil remains the most active developing-country member in the WTO. It is active on all fronts. In dispute settlement, it launched and won landmark cases against the USA on cotton and the EU on sugar. In the Doha Round, it launched and has since led the G20 in agriculture. Inevitably, Brazil has a combination of offensive and defensive positions on specific negotiating issues. But many voices from organised business in Brazil complain that these positions are not congruent with Brazil's commercial interests, and have been hijacked by extraneous foreign-policy goals (such as a permanent seat on the UN Security Council and leadership credentials in the South). Notably, Brazil's accommodation of India in the G20 means that it cannot promote its agricultural exporting interests as strongly as it could otherwise. Also, its defensive position in the NAMA (non-agricultural market-access) negotiations does not reflect Brazil's export strength in industrial goods (Marconini, 2007).

India's defensiveness in the Uruguay Round has continued in the Doha Round. It is rigidly defensive in agriculture and rather defensive in NAMA. It was strongly opposed to the inclusion of most of the Singapore issues, and remains in favour of strong Special and Differential Treatment for developing countries. That said, India is not as militantly obstructive as it was in the GATT. Its main negotiating shift has been in services, where it has discovered offensive interests in the wake of the IT-services take-off at home (Hoda, 2005).

Still, Indian trade policy appears somewhat schizophrenic: domestic economic considerations have driven unilateral liberalisation, but this has not translated into greater flexibility in the WTO (except to some extent in services). The domestic backlash against India's Uruguay Round commitments (negotiated by the MOCI largely without wider consultation or discussion) and messy coalition politics have combined to restrict the government's room for manoeuvre in the WTO. Hence unilateral and multilateral trade-policy tracks seem disconnected (Narayan, 2007).

South Africa appears superficially active in the WTO, especially so when Alec Erwin was the minister of trade and industry. But its trade-policy capacity, in its Geneva mission and back in Pretoria, is shallow. It lacks depth compared with China, India and Brazil. It is a member of the Cairns Group, but its negotiating activity in agriculture has been focused on the G20 since the Cancun Ministerial Conference. It is defensive in NAMA and inactive in services. These positions do not seem consonant with South Africa's export interests. These are not only in agriculture, which has a relatively small share in total exports, but also in intermediate manufactures and services, especially to other African countries (Draper, 2007).

Indonesia has weak trade-policy capacity compared with the other BRIICS. It is less active in the WTO compared with fellow ASEAN members Singapore, Malaysia and Thailand. It benefited from collective ASEAN action in the Uruguay Round; but since then ASEAN cooperation in the WTO has been much weaker due to widening intra-ASEAN differences. Indonesia's defensiveness in the Doha

Round is a reflection of domestic economic turbulence, nascent democratic politics and liberalisation-scepticism in the wake of the Asian crisis. It is defensive across market-access issues; and its priority is to exempt "special products" from agricultural liberalisation. Indonesia chaired the G-33 on Special Products at the Cancun Ministerial Conference. Such positions crowd out the government's ability to promote Indonesia's export interests, particularly manufactured exports to other developing countries (Basri and Soesastro, 2005; Sally, 2004).

China's WTO commitments are the strongest of any developing country (at least until the accession of Vietnam in 2006). That applies not only to tariff ceilings on goods (including agriculture), but also to NTBs on goods and services. There are strong disciplines on domestic regulation in order to improve transparency, as well as administrative and judicial-review procedures to make sure WTO commitments are implemented domestically.

The strength of China's WTO commitments ensures a better correspondence between what China does on unilateral and multilateral trade-policy tracks compared with the other BRIICS. It is aware of its strong stake in well-functioning multilateral trade rules. This is reflected in some aspects of China's post-accession WTO activity. It has been serious about implementing the bulk of its WTO commitments in timely fashion. It is very active in the WTO's regular committees, particularly on core rules issues. It has joined several cases as a third party in dispute settlement. Many of its Doha Round positions, for example on the Singapore issues and Special and Differential Treatment, have been more flexible compared with many other developing countries, including other BRIICS. Compared with the other BRIICS – India and Brazil in particular – China has kept its rhetoric low-key and avoided confrontation.

That said, China's overall negotiating position, in common with other RAMs (Recently Acceded Members), is that it is willing to contribute very little beyond its existing WTO commitments. It has been rather quiet, indeed passive, in the Doha Round, quite in contrast to India and Brazil. Finally, there are blemishes in its implementation of WTO commitments, especially in services, subsidies and intellectual-property rights.

Finally, consider Russia's WTO-accession negotiations. Nearly all the hard work and deals have been done. WTO membership will bring Russia modest gains in terms of extra export market access. That is because the bulk of its exports (in natural resources) do not suffer from protectionism abroad and are only weakly covered by WTO disciplines. Overwhelmingly, Russia's gains will come from its own liberalisation and trade-related reforms in line with WTO commitments. The average tariff will decline to about 8%; the tariff structure will be simpler and more transparent; NTBs will decrease; and services sectors will be opened up, notably in insurance, banking, telecommunications, professional services and distribution. In general, these concessions are no more severe than they have been for other newly-acceded members, and indeed less severe compared with China and Vietnam (Tarr, 2007; Tarr and Navaretti, 2005).

Russia's prospective accession to the WTO differs from China's already accomplished accession in important respects. First, it matters much less for Russia since most of its trade will barely be affected by WTO disciplines. The WTO will impose little constraint on Russian government intervention in energy trade. In that respect Russia is in the same category as Nigeria and Saudi Arabia, both predominantly oil-exporting WTO members. All the other BRIICS have much wider swathes of economic activity covered by WTO disciplines.

Second, Russia views WTO membership more in foreign-policy than in commercial or economic terms. It is about membership of an important international club in which Russia can exert its influence as a big power, and get the special treatment it feels it deserves. It is much less about using the WTO as a

strategic lever for market reforms at home and to integrate Russia into the global economy (Åslund, 2006b). For China, unilateral reforms in a labour-abundant economy led to and were reinforced by strong WTO commitments. For Russia, weaker unilateral reforms – now stalled and reversed – in a resource-based economy have formed a different view of the WTO and led to less fruitful negotiations.

Hence it would be naïve to rely on WTO accession to force the pace of market reform in Russia, in the absence of domestic political will and a unilateral reform thrust. It would be equally naïve of WTO members to allow Russia into the club on lax terms, especially concerning Russian compatibility with and subsequent implementation of WTO agreements. That would be an invitation for Russia to play foreign-policy games and undermine WTO rules once it becomes a member.

Overall, the BRIICS have some way to go before they make a positive contribution to setting the WTO on its legs again. They need to be less defensive and more flexible across negotiating issues. China, India and Brazil need to move from reactive positioning to proactive leadership. Most important, perhaps, is the need for China to move from the background to the foreground of the WTO. Finally, Russia should only be allowed into the WTO on economically sensible terms rather than those dictated by short-term (and misguided) political expediency. All these factors assume more importance in the "post-Doha" future of the WTO.

c) Bilateral and regional liberalisation

We will work with can do, not won't do, countries. Robert Zoellick

All hat and no cattle. Mexican rural proverb

Negotiations for new PTAs – overwhelmingly FTAs, but also some customs unions and partial-scope agreements – have increased pace since 1999/2000, and even more so since the launch of the Doha Round (Crawford and Fiorentino, 2005). Eastern Europe, Africa and Latin America have long been involved in PTA activity. East Asia, which previously relied on non-discriminatory unilateral and multilateral liberalisation, is now playing PTA catch-up, as is south Asia. All the major regional powers – China, India and Japan – are involved in Asian PTAs, as are the USA, EU, Korea, Australia, New Zealand, Hong Kong, China other south-Asian countries and the ASEAN countries.

Why this rush of PTA activity? Proponents argue that small clubs of like-minded members can take liberalisation and rules faster, wider and deeper than in the WTO, and act as "building blocks" to further multilateral liberalisation and rule-making. Sceptics say they are "stumbling blocks", diverting attention from the WTO, creating "spaghetti bowls" of discriminatory trade restrictions, and generally favouring powerful players at the expense of the weak (World Bank, 2004, ch. 6).

The reality is mixed. Non-discriminatory unilateral and multilateral liberalisation blunt the damaging effects of PTAs. There is little prospect of the world economy retreating to the warring trade blocs of the 1930s. Strong, "WTO-plus" PTAs, *i.e.* with comprehensive sectoral coverage, more ambitious market-access and rules commitments than in the WTO, and simple, harmonised rules of origin, can also make sense. But these are rare. The EU, NAFTA and Australia-New Zealand CER are relatively strong PTAs.

However, most other FTAs and customs unions are weak, often falling short of WTO provisions. This is particularly true of South-South PTAs (*i.e.* between developing countries), but also holds for many North-South PTAs. These tend to be driven by foreign-policy aspirations, but with justifications that are all too often vague, muddled and trivial, having little relevance to commercial realities and the economic nuts and bolts of trade agreements. This can amount to little more than symbolic copycatting of other

countries' PTA activity and otherwise empty gesture politics. In such cases economic strategy is conspicuous by its absence. In short, such PTAs are "trade-light".

The predictable results of foreign-policy-driven PTA negotiations light on economic strategy are bitty, quick-fix sectoral deals. Politically sensitive sectors in goods and services are carved out, as are crucial areas where progress in the WTO is elusive (especially disciplines on anti-dumping duties and agricultural subsidies). Little progress is usually made in tackling domestic regulatory barriers (*e.g.* relating to investment, competition, government procurement, trade facilitation, cross-border labour movement, and food-safety and technical standards).These PTAs hardly go beyond WTO commitments, deliver little, if any, net liberalisation and pro-competitive regulatory reform, and get tied up in knots of restrictive, overlapping rules of origin (ROOs). Especially for developing countries with limited negotiating capacity, resource-intensive PTA negotiations risk diverting political and bureaucratic attention from the WTO and from necessary domestic reforms. Finally, the sway of power politics can result in highly asymmetrical deals, especially when one of the negotiating parties is a major player.

Latin America and Africa have a messy patchwork of weak PTAs. This is also the emerging picture of PTAs in east and south Asia (Sally, 2006b). Now take a look at the BRIICS's record on PTAs. (See Tables 6 a-f for lists of PTAs in the BRIICS.)

Brazil's main PTA is Mercosur, its customs union with Argentina, Paraguay and Uruguay, which has a common external tariff (CET). Mercosur is pretty weak: the CET has several loopholes; little progress has been made on NTBs, services and investment; and Brazil has undermined the customs union by pursuing separate FTAs with third countries. Brazil has prioritised the latter (such as a triangular PTA with South Africa and India) alongside Mercosur FTAs with third countries. These are mostly very trade-light, amounting to fixed preferences on a limited range of tariff lines.

Business representatives complain that these FTAs are foreign-policy driven and do not make commercial sense. They are mostly with countries with which Brazil does little trade, while the Brazilian government has neglected FTA initiatives with its two most important trading partners, the EU and USA. EU-Mercosur FTA negotiations have been stuck for several years; and Brazil has put the FTAA negotiations on the backburner. Mario Marconini, Brazil's former foreign trade secretary, characterises Brazil's approach to the latter two FTA negotiations as "aimless wandering" (Marconini, 2008).

South Africa's PTA picture looks similar. It is the lead player in SACU, which, since 2004, is supposed to decide on tariffs and trade remedies jointly, and have a common tariff revenue-sharing arrangement. But SACU has hardly any supranational capacity to implement joint powers. Moreover, it is undermined by overlapping FTAs with third countries. South Africa has or is negotiating separate FTAs with the EU (its strongest FTA), India, Brazil and others. It is also a member of SADC, which plans a customs union by 2010, followed later by a common market and then a monetary union. SADC's joint capacity is extremely weak; and some of its members belong to two other PTAs, COMESA (Community of Southern and Eastern African States) and the EAC (East African Community). To complicate matters further, the EU plans Economic Partnership Agreements (EPAs) with members of SADC, COMESA and EAC, but not with South Africa.

The result is a comical mess of overlapping PTAs in southern Africa, with a plethora of different and restrictive ROOs. Not least, it adds to the complexity of South Africa's trade regime. Finally, like Brazil, South Africa is prioritising FTAs with countries with which it does relatively little trade – more for foreign-policy than commercial reasons. Its most commercially serious FTA negotiation – with the USA – stalled precisely because South Africa and other SACU members were not interested in the kind of strong WTO-plus FTA the USA insists on (Draper, 2007; Flatters and Stern, 2007).

Indonesia's main FTA is AFTA, which has an accelerated timetable for intra-ASEAN tariff elimination with relatively simple rules of origin (40% local content across the board). There are plans for an ASEAN Economic Community – a single market for goods, services, capital and skilled labour – by 2015. This looks good on paper, but ASEAN has made very little progress beyond tariff elimination, for example on NTBs, services, investment and mutual recognition of standards. These "AFTA-plus" items – all concerning regulatory barriers to trade – are far bigger obstacles than tariffs to regional economic integration.

Indonesia is not as active with FTAs as its ASEAN neighbours Singapore, Thailand and Malaysia. It has one bilateral FTA with Japan, though it is considering others. But it is part of ASEAN FTAs with several third countries. Some of these negotiations, for example with China and South Korea, have made headway with tariff elimination, but so far they have done little to tackle far more important regulatory barriers to trade and investment. A "noodle bowl" of different ROOs within and across ASEAN FTAs is also problematic (Sally, 2006b).

India is very active with FTAs, in its South-Asian backyard and in other developing-country regions. Hitherto loose regional cooperation is supposed to be transformed into the South Asian FTA (SAFTA) by 2010, leading to a customs union by 2015 and economic union (whatever that means) by 2020. This looks unachievable in practice. For starters, SAFTA excludes Indo-Pakistani trade. Planned negotiations are only on goods; they do not cover services, investment and other non-border market-access issues. There are bound to be plenty of exemptions, given similar trade structures with competing products (especially in agriculture).

India's approach to FTAs outside South Asia is mostly about foreign policy and is trade light. An FTA with ASEAN is planned for completion by 2011; and bilateral FTAs are also in place with Thailand and Singapore. ASEAN-India and India-Thailand negotiations have been bedevilled by India's insistence on exempting swathes of products and on very restrictive rules of origin for products covered. Fear of Chinese competition is probably the main factor driving product exemptions and restrictive ROOs. In addition, India is part of the BIMSTEC group (the other members being Bangladesh, Sri Lanka, Nepal, Bhutan, Thailand and Myanmar) that plans an FTA by 2017. It has mini-FTAs – basically limited tariff-concession schemes – in force or planned with several countries and regions, for example Chile, SACU, Mercosur and IBSA. FTA negotiations with South Korea and Japan are ongoing (Sally, 2006b).

India's most serious FTA negotiation is with the EU. Both sides have committed to an ambitious agreement, with tariff elimination on more than 90 % of goods trade and a strong GATS-plus agreement in services. Most of agriculture will be exempted by mutual agreement. Whatever the rhetoric, the EU will find it extremely difficult to tackle India's high trade-related regulatory barriers through an FTA, and, specifically, to open up government procurement and some services sectors (for example professional services, financial services, retail and distribution). Given stalled policy reforms in Delhi, snail-like unilateral liberalisation, WTO defensiveness and other trade-light FTAs, a "deep-integration" FTA with India is next to impossible (Sally, 2007b).

China is the driving force for FTAs in Asia. The China-ASEAN set of negotiations, more than any other FTA initiative, is the one to watch in the region. It will be the largest FTA ever negotiated, covering 11 diverse economies with a population of 1.7 billion. There has been reasonable progress in eliminating tariffs on trade in goods. However, little progress to date has been made on non-tariff barriers in goods, services (where a relatively weak agreement has been reached), investment and other issues. China has stronger WTO-plus FTAs with Hong Kong, China and Macau (both admittedly special cases) and with New Zealand; a comprehensive FTA on goods with Chile; and is negotiating FTAs with Australia and Singapore. It has a partial-scope tariff agreement with Pakistan. It is also negotiating or thinking of

negotiating rather weak FTAs elsewhere in the developing world, for example with Mercosur and SACU. These are shallow - mostly preferential tariff reductions on a limited range of products.

China's approach to FTAs is pragmatic and eclectic, but mostly trade light. Even the China-ASEAN FTA is unlikely to create much extra trade and investment if it does not go substantially beyond tariff elimination in goods. China's FTAs are driven more by "high politics" (competition with Japan to establish leadership credentials in East Asia; securing privileged influence in other regions) than economic strategy (Sally, 2006b).

In addition to bilateral FTAs, Asia – east Asia in particular – is awash in regional economic integration initiatives. An APEC FTA initiative (FTAAP – Free Trade Area of the Asia Pacific) was launched at the APEC Hanoi Summit in 2006. It will go nowhere: political and economic divisions in such a large, heterogeneous grouping are manifold and intractable. An "ASEAN Plus Three" FTA (the "three" being Japan, South Korea and China) has been touted, as has an East-Asian FTA that might include Australia and New Zealand. There is talk of a pan-Asian FTA that would include India or SAFTA. Visions of an East Asian Economic Community and even an Asian Economic Community have appeared on the horizon.

So far this talk is loose and empty – nothing more. Regional players are speeding ahead with quick and dirty bilateral FTAs, while little progress is being made with the larger ASEAN FTAs (beyond tariff elimination in goods trade). The emerging pattern is of a patchwork of bilateral "hub-and-spoke" FTAs, in a noodle bowl of trade-restricting rules of origin. This threatens to slow down and distort the advance of regional and global production networks. In particular, it could undermine the dense networks of east-Asian production-sharing and trade in manufacturing parts and components ("fragmentation-based trade", or what Richard Baldwin calls "Factory Asia"), which are in turn linked to final export markets in Europe and North America.[20] More generally, bitter nationalist rivalries (especially in northeast Asia and between India and Pakistan), and vast inter-country differences in economic structure, development, policies and institutions, will continue to stymie Asian regional-integration efforts for a long time to come. This applies to east Asia; it applies even more to south Asia.

Finally, Russia is largely absent from PTAs outside its neighbourhood. But it is at the centre of a huge PTA spaghetti bowl in the Commonwealth of Independent States, and plans a customs union with Kazakhstan and Belarus. Preferential arrangements with neighbouring countries are contradictory, not applied or weakly enforced.

d) The role of donors[21]

Foreign aid, with conditions attached by the IMF, World Bank and other donors, has clearly played a big part in driving Washington Consensus-type reforms in many developing countries. This has gone way beyond developing countries' (relatively weak) liberalising commitments in the WTO and PTAs. Arguably, unilateral liberalisation has not been truly "unilateral" when it has depended on donor policy preferences and aid with strings attached. The record of IMF stabilisation packages and World Bank structural adjustment packages has been mixed at best, and certainly disappointing compared with optimistic expectations in the 1980s (World Bank, 1998a and World Bank, 1998b). Often donor-driven reforms have proceeded in stops and starts, with reversals en route. Projected growth and poverty-alleviation effects have not materialised. The politics of aid is even more dubious than its economics.

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20 Athukorala (2006: 1-27).

21 This section draws on Erixon and Sally (2006: 69-77).

"Conditionality" is empty rhetoric when self-serving interests at both ends of pipeline ensure that aid continues to flow, even when promised reforms are not delivered. And the perception that Western donors are imposing reforms on otherwise reluctant countries is hardly sustainable: local "ownership" is lacking (to borrow aid jargon), and it invites a backlash and reform-reversal at home (Bauer, 2000).

The bottom line is that countries that have seen strong, sustained, unilateral liberalising reforms are those whose governments have driven reforms ("from below", as it were) rather than having them imposed by donors ("from above"). Aid at its best has smoothed short-term adjustments, as happened with the IMF package to India in 1991, and Japanese aid to Indonesia in the 1980s. The IMF and World Bank have sometimes been useful sources of policy and technical advice. More than anything else, donor conditionality has provided a "good housekeeping seal of approval" – an international signal of reform credibility – for determined home-driven reforms. In these countries (most in east Asia and eastern Europe, and a few in Latin America), aid has played a marginal role. This applies to the BRIICS as well. Where there has been more reliance on aid and donor conditionality – especially in Africa - reforms have a far worse record.

Hence grand aid blueprints, notably the UN Millennium Project and the Africa Commission Report, are not relevant to the BRIICS. Nor is the WTO's "aid-for-trade" initiative.

e) Preliminary summary

Box 4.2 summarises multi-track trade policy in the BRIICS. The BRIICS have relied mostly on unilateral liberalisation to open their economies to the world. But unilateral liberalisation has stalled or slowed down; and Russia has seen partial reform reversal. In some BRIICS trade negotiations have gained the upper hand over unilateral measures, but led to little or no additional liberalisation.

The WTO has been of second-line assistance by providing a framework of multilateral trade rules for unilateral reforms. But GATT/WTO commitments have contributed little to liberalisation itself in the BRIICS, except in South Africa and China. In both countries, however, the primary thrust of reforms was domestic, coming from national leaderships rather than external pressure in trade negotiations. Russia has yet to join the WTO (at the time of writing). WTO accession negotiations aided market reforms earlier this decade, but much less so in the last few years.

The BRIICS's PTAs are trade-light: they are driven more by foreign policy than commercial strategy; their noodle-bowl discriminatory patchwork causes complications for business and multilateral rules; and they are unlikely to spur regional or global integration. Hence further substantial liberalisation through trade negotiations, whether in the WTO or PTAs, is unlikely. Trade negotiations and resulting agreements are subject to diminishing returns as a vehicle for extra liberalisation, especially on non-border regulatory issues.

Foreign aid has been important in some crisis situations in the BRIICS. But it has played a marginal role in medium to long-term trade-policy reforms. Generally, aid-induced liberalisation has not really worked: its political economy is dubious. Hence it would be a mistake to rely on aid for further market-based reforms.

Finally, looking beyond the global economic crisis, unilateral measures and competitive emulation are likely to be the main vehicle for future trade and FDI liberalisation. Much depends on a Chinese engine. Further unilateral liberalisation in China will probably set imitative reforms in train, elsewhere in Asia and beyond. A workable post-Doha WTO can help to lock in reforms, but more by strengthening multilateral rules than through market-access negotiations. Much more caution needs to be exercised with

PTAs; and serious attempts made to minimise the damage from their discriminatory provisions. The BRIICS – China in particular – have important roles to play on both WTO and PTA tracks.

Box 4.2. Multi-track trade policy

	Unilateral liberalisation	*Multilateral liberalisation*	*Regional/bilateral liberalisation*	*Role of donors/policy conditionality*
Brazil	Strong (1988/89-94). Little thereafter	Weak. But very active in WTO	Weak. Very active with PTAs. Trade-light PTAs	Weak
India	Incremental since 1991	Weak. But very active in WTO	Ditto	Weak, except IMF package 1991
China	Strong (1990s)	Very strong WTO commitments. Active in WTO (but low-key in DDA)	Ditto	Weak
Indonesia	Strong (mid1980s-early 1990s)	Weak. Defensive in DDA	Weak. Mainly ASEAN FTAs. Relatively trade-light PTAs	Mixed. Japanese aid in 1980s, IMF package 1998
South Africa	Rand crisis 1996. Little thereafter	Strong Uruguay Round commitments. Defensive in DDA since Cancun	Weak. Very active with PTAs. Trade-light PTAs	Weak
Russia	Stops and starts in 1990s. Weak since 2003/4. Some reform reversal	Not yet acceded to WTO	Trade-light PTAs in CIS	IMF packages in 1990s

5. Conclusion: What lessons for future reforms?

To recapitulate: The conditions for further liberalisation and associated structural reforms are much more difficult today than they were in the heyday of the Washington Consensus. Reform complacency resulted from a post-crisis environment of buoyant growth and normal interest-group politics. There has been dissatisfaction with previous reforms in parts of the developing world. Some anti-liberalisation ideas are enjoying a revival. These trends have been reinforced by the global economic crisis since late 2008, accompanied, inevitably, by an anti-market backlash.

Lastly, the politics of "second-generation" trade-policy reforms is proving more difficult than that of "first-generation" reforms. The latter involve the reduction and removal of border barriers. This is relatively simple technically and can be done quickly – though politically these measures are rarely easy. The former are all about complex domestic (though trade-related) regulation, such as services regulation, regulation of food-safety and technical standards, intellectual-property protection, public procurement, customs administration and competition rules. These reforms are technically and administratively difficult, and take time to implement. They demand a minimum of capacity across government, especially for implementation and enforcement. Above all, they are politically very sensitive, as they affect entrenched interests that are extremely difficult to dislodge.

The immediate and paramount challenge is to contain mounting protectionist threats in the wake of the global economic crisis. If not contained, these threaten to reverse the hard-won liberalisation gains of the 1980s and 1990s. Tit-for-tat protectionism will deepen and prolong a global recession, and it will compromise prospects for a strong and sustainable recovery. But that is by no means enough: there remains a strong case for *further* market-based reforms in general, and for external liberalisation in particular. Reduction of what are still high barriers to trade, foreign investment and the cross-border movement of people holds out the promise of higher growth, and significant poverty reduction and improvements in human welfare. Stalled reforms and reform reversal threaten to deprive hundreds of millions of people of the life-chances they deserve. These are the stakes – for the BRIICS, and for developing countries generally. Against this backdrop, the following challenges lie ahead.

The BRIICS are "first-division" reformers. They belong to a group of 20-25 developing countries – the "new globalisers" - that have already gone far with macroeconomic stabilisation, and internal and external liberalisation. They have plugged themselves into globalisation. Russia fits this pattern least well, given the predominance of energy and other resources in its external commerce, and greater state interference in these sectors in recent years.

The BRIICS's task is to go further with dismantling border barriers to trade and opening the door to FDI. But their bigger challenge is to make much more progress on trade-related domestic reforms – the "microeconomic", "structural" and "institutional" reforms where progress to date has been too slow. This entails tackling the second-generation issues mentioned above. What is needed is a culture of permanent, incremental reforms, mainly of the second-generation variety, that build on the foundations of first-generation reforms, so that the economy adapts flexibly to changing global conditions. That is easier said than done. That has proved elusive in conditions of normal interest-group politics, without an economic crisis to concentrate minds. The consequence is creeping sclerosis in times of plenty, and excessive reliance on a crisis for the next reform wave (Olson, 1982 and OECD, 2007a). That cannot be good for long-term political, social and economic health. Now the BRIICS face economic crisis again. We will see which way they turn.

Such are the broad trade-policy priorities for the BRIICS. In this context, the following points deserve emphasis.

First, there needs to be a clearer link between trade policy, on the one hand, and *domestic* economic-policy and institutional reforms, on the other. Trade policy should be coupled strongly with competition-friendly measures to improve the domestic business climate. It should be better hitched to domestic reforms. For example, there should be ways of linking trade and FDI liberalisation, and trade-related regulatory reform, to measures to shorten and simplify regulations that hinder business at home. Such red tape includes procedural hurdles to overcome before starting a business, dealing with various licensing procedures, registering property, getting access to credit, employing workers, paying taxes, protecting investors and bankruptcy procedures. Red tape directly affecting exports and imports include the documentation, time taken and costs of clearing goods through customs. These regulations are documented, classified and ranked in the World Bank’s annual *Doing Business* Report. Second-generation trade-policy reforms depend on the quality of public administration and the rule of law (*i.e.* the quality of the legal framework governing property rights and contracts, and their enforcement by the judicial system). They also relate, ultimately, to the political system.

All the BRIICS do badly - some very badly - in the World Bank's business-climate and governance indicators (not to mention similar rankings done by a host of other organisations). That indicates how partial reforms have been to date. They have barely touched highly restrictive labour markets and the bloated, malfunctioning domain of the state.[22] That affects external as well as internal trade, and foreign as well as domestic investment. In essence, such policies continue to restrict economic freedom for individuals and enterprises, consumers and producers. They act as structural, long-term deterrents to productive investment, entrepreneurship and wealth creation (Greenspan, 2007). That leaves a vast pro-market reform agenda yet to be tackled.

Second, and following directly from the previous point, trade policy should be seen less through the prism of trade negotiations, international organisations and (often unrelated) foreign-policy agendas, and (as argued above) more through the prism of the domestic economy. Second-generation reforms in particular are bundled up with domestic politics and economics; initiating and implementing them is overwhelmingly a domestic affair; and the scope for productive international negotiations and solutions is restricted. That is already becoming evident with the regulation of services trade and trade-related product standards, and of policies towards inward investment. It will become even more evident as global production networks and the movement of people across borders bite ever deeper into domestic institutions.

As trade policy becomes ever more entwined with domestic policies and institutions, it follows that there should be more reliance on unilateral measures, including external liberalisation, and correspondingly less reliance on reciprocal liberalisation through the WTO and PTAs. Unilateral reforms should then be locked in through stronger WTO commitments.

Third, there should be much more policy *transparency.* Trade-policy making is usually opaque. Too little is known and understood about the effects of this-or-that set of trade policies. Consequently, public discussion of policy choices is usually uninformed and misguided. This applies to all the BRIICS. It is the Achilles Heel of their trade-policy making. It is a general weakness in trade policy in developing

22 China has much more flexible employment practices than the other BRIICS, though its *hukou* system limits the freedom of workers to move from the countryside to the cities. And China has a long, long way to go with public-sector reforms.

countries generally. And one should add that trade-policy transparency is not vastly better in most developed countries.

What is lacking is what Patrick Messerlin calls a "culture of evaluation" (Messerlin, 2006). Independent think tanks and even government bodies should do much more detailed research and analysis on the costs and benefits of trade policies in different sectors of the economy, and then disseminate findings to the public. This would facilitate more informed, intelligent public discussion of policy choices.

One model to examine is that of the Australian Productivity Commission (formerly called the Tariff Board, and then the Industries Assistance Commission). This is a governmental body, but it is independent and has statutory powers. It provides research and analysis on trade-related issues in Australia; and its conclusions do make their way into the public debate. The Tariff Board's ground-breaking work did much to reveal the costs of protection to the Australian public back in the 1970s, at a time when Australia was a highly-protected economy. This generated much public discussion at the time, and in many ways prepared the ground for the radical opening of the Australian economy in the 1980s (Bowen, 2007). Such "transparency boards" could be set up at relatively low cost in developing countries. The BRIICS should be first in line.

Finally, the WTO's Trade Policy Review Mechanism, while welcome, is stuck within the rarefied bureaucratic confines of far-away Geneva. It has limited effect in terms of *domestic* transparency – which is what matters. Hence it is no substitute for national transparency boards.

Taken together, these reform priorities are as much about *simplicity* and *transparency* as they are about *liberalisation*. The case for transparency has been made above. Simplicity is all about making complex bureaucratic procedures shorter, more predictable, and also more transparent. This would lessen the costs of doing business – for domestic *and* foreign traders and investors. Hence the importance of linking trade policy to nitty-gritty domestic reforms.

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Tables and Figures

Table 4.1. Economic and Trade Indicators 2006

	GDP Current (US$ bn)	GDP Growth (%)	Population (mn)	PPP Per Capita GDP (US$)	PPP GDP (US$ bn)	Merchandise Exports (US$ bn)	Service Exports (US$ bn)	Total Merchandise Trade (US$ bn)	Total Service Trade (US$ bn)	Trade/ GDP (%)	FDI Inflow (US$ bn)	FDI Inflow / GDP (%)
World	48,244.9	4.0	6,517.8	10,252.4	66,823.0	12,063.5	2,768.3	24,341.9	5,406.4	52,1[a]	1,305.9	2.1
EU[b]	12,957.8	3,0[c]	461.1	28,101.9	12,386.4	1,481.7	555.4	3,179.5	1,027.1	21,9[d]	531.0	4.1
US	13,201.8	3.3	299.0	44,155.0	13,201.8	1,038.3	388.8	2,957.7	696.6	25.9	175.4	1.3
Brazil	1,068.0	3.7	188.7	9,054.0	1,708.4	137.5	17.9	233.4	44.8	26.4	18.8	1.8
Russia	986.9	6.7	142.4	11,974.3	1,704.8	304.5	30.1	468.4	74.4	55.8	28.7	2.9
India	906.3	9.2	1,109.8	3,827.1	4,247.4	120.3	73.8	295.1	137.5	41.8	16.9	1.9
Indonesia	364.5	5.5	223.0	4,130.4	921.2	103.5	5.1	183.8	22.3	60.4	5.6	1.5
China	2,668.1	10.7	1,311.8	7,659.7	10,048.0	968.9	91.4	1,760.4	191.7	69.0	69.5	2.6
South Africa	255.0	5.0	47.4	11,960.2	566.8	58.4	11.7	135.7	25.7	57.5	-0.3	-0.1
TOTAL BRIICS	6,248.7	-	3,023.1	48,605.7	19,196.6	1,693.1	230.1	3,076.8	496.4	-	139.1	-

a. Number for 2004.

b. Numbers for GDP and PPP GDP presumably given for 2005 at WTO as differs compared to 2004 numbers - WDI doesn't have data on EU as one entity.

c. Data from Eurostat as World Bank does not show data for EU 25. For comparison: Eurostat gives 2.9 GDP Growth Rate in US for 2005 (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_ECOBAC&root=STRIND_ECOBAC/ecobac/eb012).

d. Number for 2005.

Source: World Bank WDI, WTO Statistical Database, UNCTAD WIR 2007.

Table 4.2a. Bound and Applied MFN Tariffs (World Bank 2005)

	Binding Coverage (All Goods)	Simple Mean Bound Rate (All Goods)	Simple Mean Tariff (Manufactures)	Simple Mean Tariff (Agriculture)	Simple Mean Tariff (All Products)	Weighted Mean Tariff (All Products)	Share of Lines with Int. Peaks (All Products)	Share of Lines with Spec. Rates (All Products)
EU	100.0	4.2	1.7	7.9	2.7	2.0	6.7	9.0
US	100.0	3.6	3.3	2.8	3.2	1.6	6.1	5.9
Japan	99.7	3.0	2.3	8.4	3.3	2.5	8.1	2.7
Brazil	100.0	31.4	12.6	7.9	12.3	7.1	27.7	0.0
Russia	0.0	-	11.5	10.7	11.4	9.6	17.9	16.0
India	73.8	49.6	15.9	24.4	17.0	14.5	15.5	3.5
Indonesia	96.6	37.1	6.4	7.2	6.5	6.0	8.7	0.0
China	100.0	10.0	9.2	8.8	9.2	4.9	19.1	0.0
South Africa	96.3	19.4	8.8	5.4	8.5	5.4	21.3	1.0
Low and Middle Income Countries	76.2	34.8	9.4	9.0	12.3	6.1	17.8	0.9
High Income Non-OECD	67.3	21.3	3.7	6.3	4.1	1.2	5.0	0.8
High Income OECD	98.6	7.4	3.0	3.7	3.1	2.0	3.7	0.0

Note for all countries except Russia: Rates are either partially or fully recorded applied rates. All other simple and weighted tariff rates are MFN rates.

Source: http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/WDI_table6_7_tariff_barriers.xls.

Table 4.2b. Bound and Applied MFN Tariffs (WTO - Country Profile Reports 2006)

	Binding Coverage (All Goods)	Simple Mean Bound Rate (All Goods)	Simple Mean Tariff (Manufactures)	Simple Mean Tariff (Agriculture)	Simple Mean Tariff (All Products)	Weighted Mean Tariff (All Products)	Share of Lines with Int. Peaks (All Products)	Share of Lines with Spec. Rates (All Products)
EU	100.0	4.2	1.7	7.9	2.7	2.0	6.7	9.0
US	100.0	3.6	3.3	2.8	3.2	1.6	6.1	5.9
Japan	99.7	3.0	2.3	8.4	3.3	2.5	8.1	2.7
Brazil	100.0	31.4	12.6	7.9	12.3	7.1	27.7	0.0
Russia	0.0	-	11.5	10.7	11.4	9.6	17.9	16.0
India	73.8	49.6	15.9	24.4	17.0	14.5	15.5	3.5
Indonesia	96.6	37.1	6.4	7.2	6.5	6.0	8.7	0.0
China	100.0	10.0	9.2	8.8	9.2	4.9	19.1	0.0
South Africa	96.3	19.4	8.8	5.4	8.5	5.4	21.3	1.0
Low and Middle Income Countries	76.2	34.8	9.4	9.0	12.3	6.1	17.8	0.9
High Income Non-OECD	67.3	21.3	3.7	6.3	4.1	1.2	5.0	0.8
High Income OECD	98.6	7.4	3.0	3.7	3.1	2.0	3.7	0.0

a. Simple Average of *ad-valorem* duties.

b. 2005.

c. SAIIA.

Source: WTO Tariff Profiles.

Table 4.3. Average Applied Tariffs for BRIICS (unweighted in %)

	1985	1990	1995	2000	2005
EU	-	8.7	4.3	2.2	2.5
US	-	6.3	4.3	3.6	3.0
Brazil	51.0	32.2	13.2	16.6	12.2
Russia	-	7,3[a]	11,2[b]	11.1	10.0
India	100.0	81.8	41.0	32.7	16.0
Indonesia	27.0	20.6	14.0	7.8	6.5
China	38,1[c]	40.3	22.4	16.2	9.0
South Africa	29,0[d]	11.0	15,0[b]	6.9	7.8

a. 1993.

b. 1996.

c. 1986.

d. 1984.

Note: All tariffs rates are based on unweighted averages for all goods in ad valorem rates, or applied rates, or MFN rates whichever data is available in a longer period.

Source: World Bank http://siteresources.worldbank.org/INTRES/Resources/tar2005.xls

Table 4.4. Decline in Effective Rates of Protection for Manufacturing in BRIICS

	Year	ERP	Source
Brazil	1987	86	Ferreira and Rossi (2003)
	1990	55	Ferreira and Rossi (2003)
	1997	18	Ferreira and Rossi (2003)
India	1986-90	107	Sen (2008)
	1996-00	42	Sen (2008)
Indonesia	1975	74	World Bank (1993)
	1987	70	Fane and Condon (1996)
	1990	59	World Bank (1993)
	1995	25	Fane and Condon (1996)
South Africa	1993	48	Edwards (2005)
	2000	15	Edwards (2005)
	2004	12.7	Edwards (2005)

Sources:

Sen, Kunal (2008), 'Trade, FDI and Industrial Transformation in India', paper presented at the research workshop, 'Emerging Trends and Patterns of Trade and Investment in Asia', Ninth Global Network Conference, Brisbane, Australia, 1-2 February.

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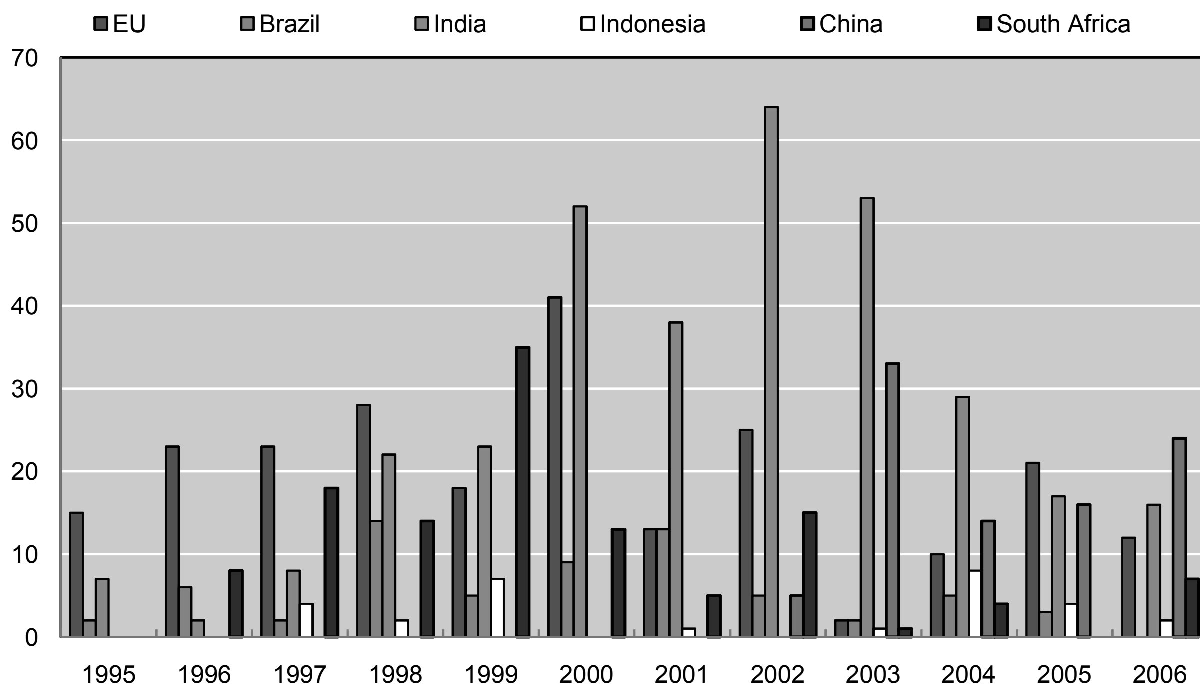
Edwards, Lawrence (2005) 'Has South-Africa Liberalised its Trade?' South African Journal of Economics Vol. 73:4 December 2005, pp. 768.

Figure 4.1. Use of AD Measures by BRIICS - except Russia (1995-2006)



Note: Anti-dumping measures: by reporting Member.

Source: WTO, http://www.wto.org/english/tratop_e/adp_e/adp_stattab7_e.xls

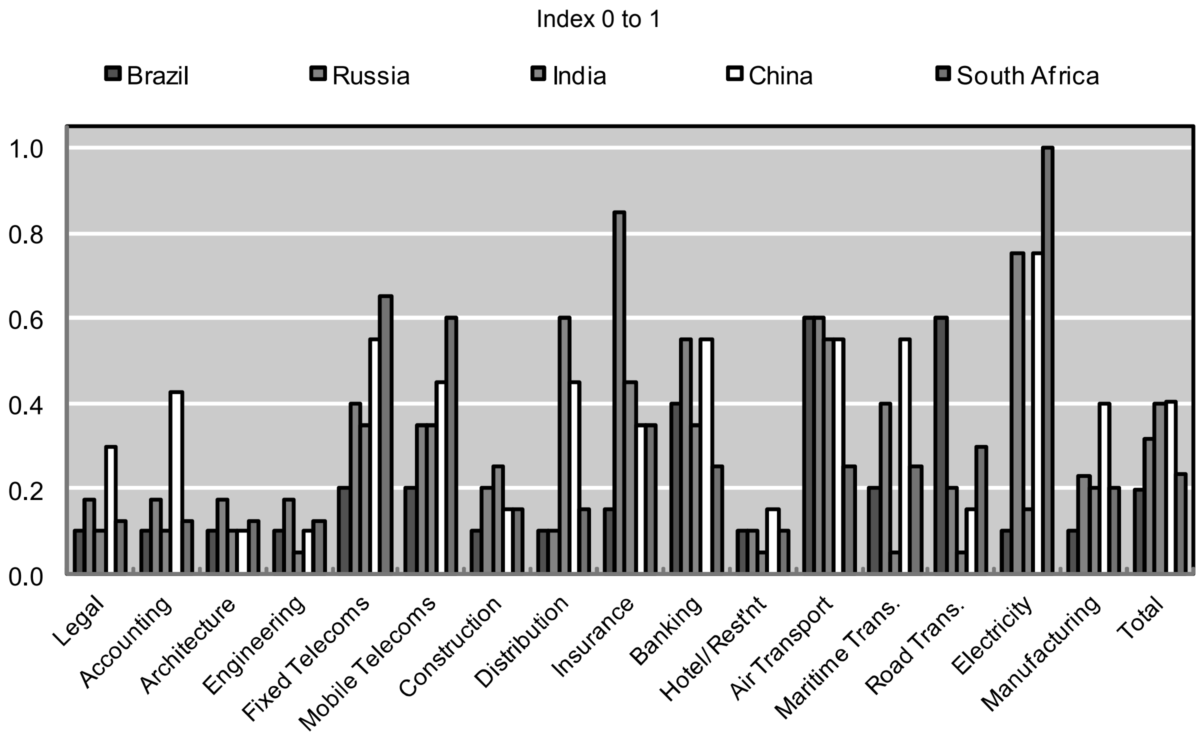
Table 4.5. Coverage Ratio of Non-tariff Barriers in Import Trade (Unweighted/ Simple Averages in %)

	1984-87	1988-90	1991-93	1997-2000	2001
Brazil	35.3	3.2	1.5	-	3.8
Russia	-	-	-	-	0.9
India	80.7	65.4	62.6	-	34.7
Indonesia	94.7	9.4	2.7	3.1	1.8
China	10.6	23.2	11.3	5.7	7.6
South Africa	-	-	-	-	1.1

Note: Calculated as percentage of import value of HS6 tariff lines affected by NTBs in total imports. NTBs include quantitative restrictions in the form of all types of licenses and import authorisation, quotas, import prohibitions, advanced import deposits, foreign exchange restrictions, fixed customs valuations, and state trading monopolies. Figures reported under a given sub-period relate a single year within that sub-period.

Source: Hoekman, Mattoo and Engels (2002) Development, Trade and the WTO: A Handbook, World Bank (Table A-4 Appendix) and WTO, Trade Policy Review – Country Report (various). Figures for 2001 come from World Bank: siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/ntb2001.xls.

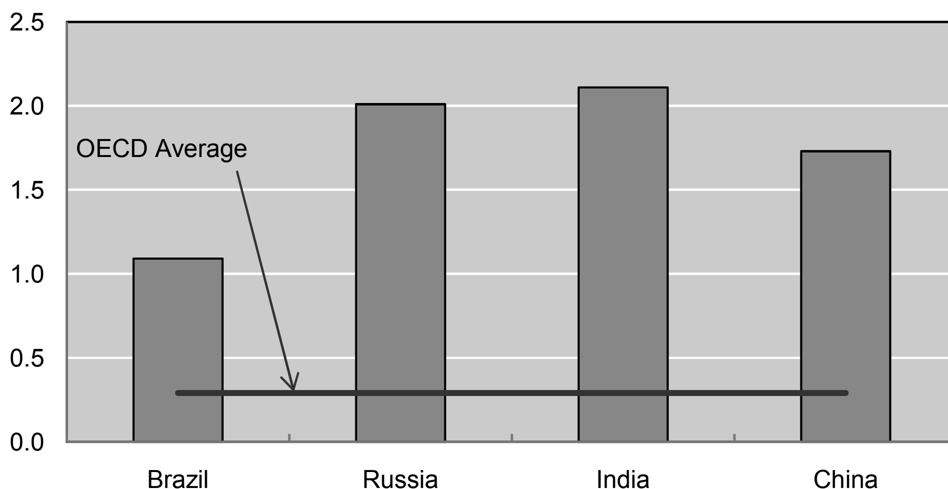
Figure 4.2. OECD FDI Regulatory Restrictiveness Scores for BRIICS - excl. Indonesia



Source: Koyama and Golub (2006) OECD'S FDI Regulatory Restrictiveness Index: Revision and Extension to more Economies, Economic Department Working Papers No. 525, pp. 8-10.

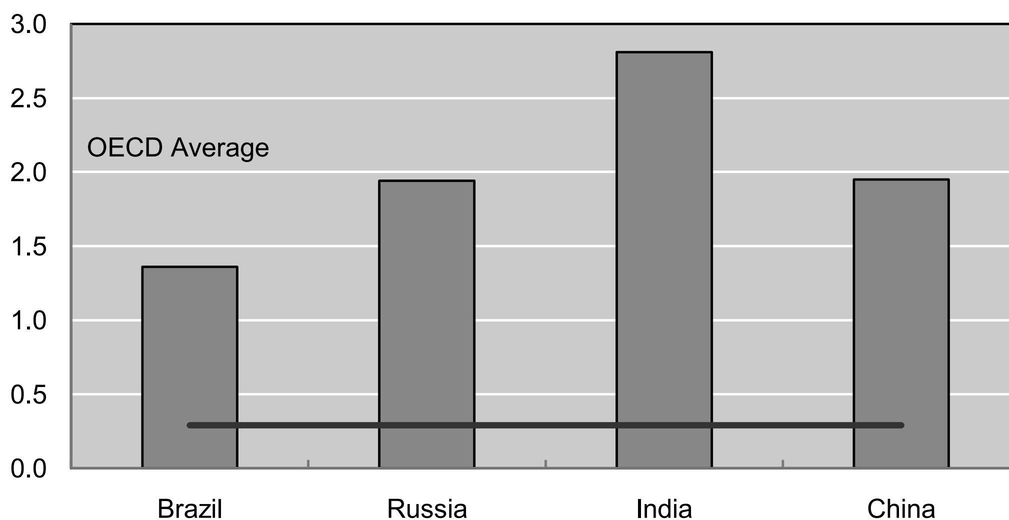
Figure 4.3. OECD Trade Restrictiveness Index for BRIICS in Banking, Insurance, Fixed Telecom, Mobile Telecom and Distribution

Figure 4.3a. OECD Trade Restrictiveness Index for BRIICS in Banking



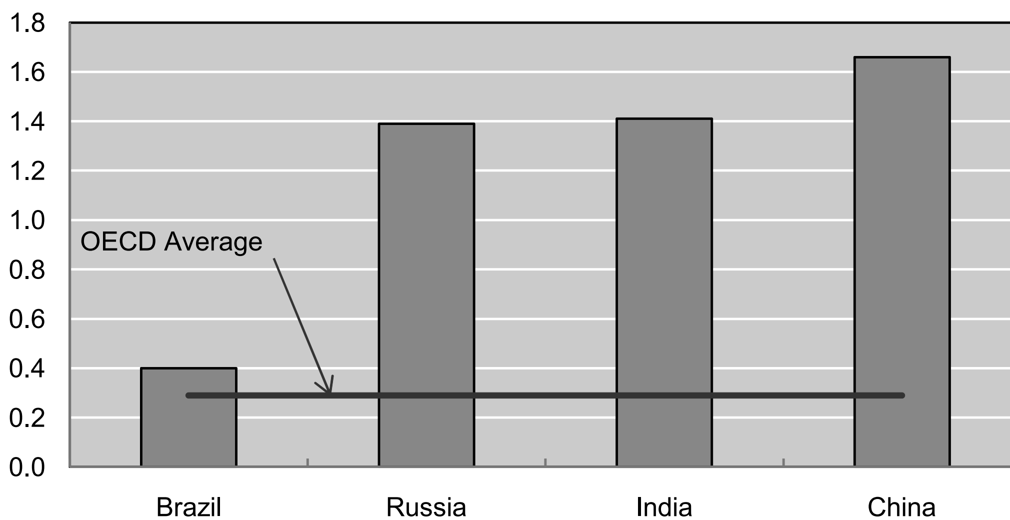
Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27.

Figure 4.3b. OECD Trade Restrictiveness Index for BRIICS in Insurance



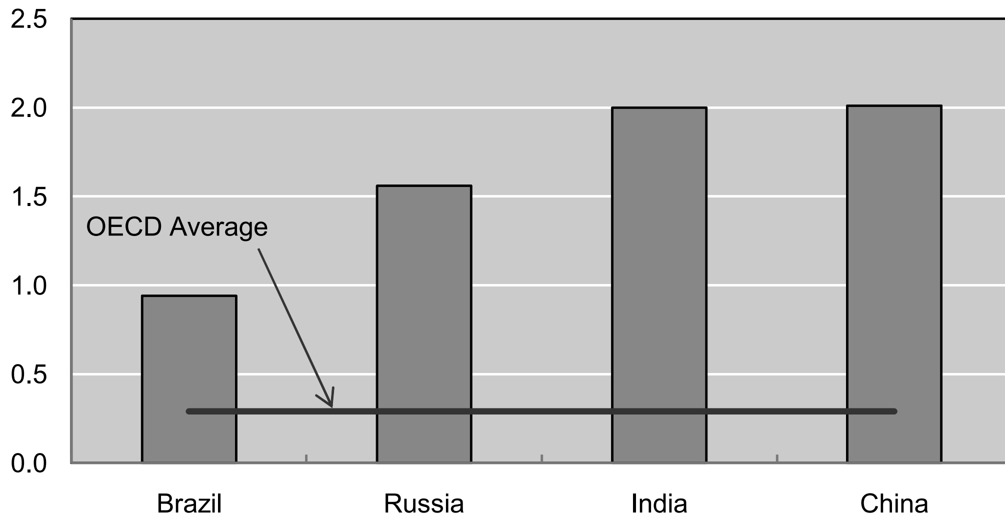
Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27.

Figure 4.3c. OECD Trade Restrictiveness Index for BRIICS in Fixed Telecom



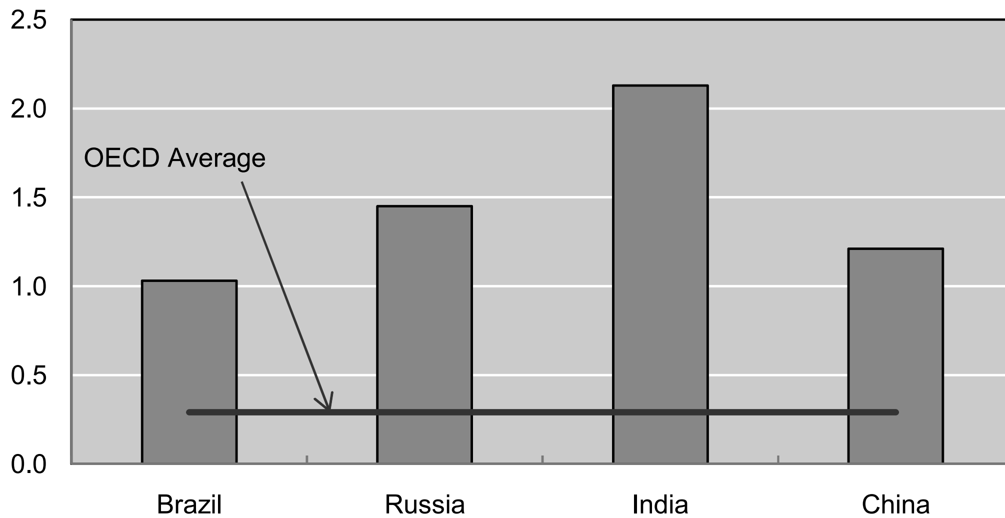
Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27.

Figure 4.3d. OECD Trade Restrictiveness Index for BRIICS in Mobile Telecom



Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27.

Figure 4.3e. OECD Trade Restrictiveness Index for BRIICS in Distribution



Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27.

Table 4.6. List of Recently Established or Proposed RTAs/ CEPAs/ FTAs for BRIICS

Table 4.6a. Recently Established or Proposed RTAs/CEPAs by Brazil (2000-2007)

Trading Partners	Nature of Agreement	Status of Agreement 2007
Mercosur	RTA	Agreement (weakly) in force
ANDEAN	FTA	Signed by Mercosur
Chile	FTA	Signed by Mercosur
Bolivia	FTA	Signed by Mercosur
Peru	FTA	Signed by Mercosur
Egypt	FTA	Framework Agreement signed by Mercosur
South Africa	FTA	Framework Agreement signed by Mercosur
India	FTA	Framework Agreement signed by Mercosur
Mexico	FTA	Framework Agreement under negotiation by Merosur
EU	FTA	Under negotiation by Merosur
Caricom	*FTA*	Under discussion
ALADI	RTA	Agreement in force
FTAA	RTA	Faltered
Japan	FTA	Under study

Source: Chaire MERCOSUR Science Po Paris, WTO TPR Brazil (2004) and bilaterals.org.

Table 4.6b. Recently Established or Proposed RTAs/CEPAs by Russia (2000-2007)

Trading Partners	Nature of Agreement	Status of Agreement 2007
US	WTO Bil. Market Acces Agr.	Under negotation
South-Korea	FTA	Pilot talks
India	CEPA	Proposed
Pakistan	IA	Agreement signed
Uruguay	FTA	Under negotation

Source: bilaterals.org.

Table 4.6c. Recently Established or Proposed RTAs/CEPAs by India (2000-2007)

Trading Partners	Nature of Agreement	Status of Agreement 2007
Singapore	FTA	Agreement in force
Sri Lanka	FTA	Agreement in force
APTA	FTA	Agreement in force
Bhutan	FTA	Agreement in force
Nepal	FTA	Signed
SAFTA	FTA	Signed
Trinidad & Tobago	BIPA	Signed
CEFTA	FTA	Agreement signed
Thailand	EPA/ FTA	Framework Agreement signed
ASEAN	FTA	Framework Agreement signed
BIMSTEC	FTA	Framework Agreement signed
SACU	FTA	Framework Agreement signed
COMESA	FTA	Framework Agreement signed
MERCOSUR	FTA	Framework Agreement signed
GCC	FTA	Framework Agreement signed
Afghanistan	PTA	PTA signed
Chile	PTA	PTA signed
Russia	CEPA	Proposed
USA	FTA	Proposed
China	BIPA & FTA	Proposed
India	PTA	Under negotiation
Korea	FTA & CEPA	Under negotiation
Mauritius	CEPA	Under negotiation
Japan	EPA/ FTA	Under negotiation
Indonesia	EPA/ FTA	Under negotiation
Australia	EPA/ FTA	Under negotiation
Egypt	PTA	Under negotiation
EU	FTA	Negotiation planned
EFTA	FTA	Under study
Malaysia	FTA	Under study

Source: Razeen Sally, (2007) *EU-Asia FTAS*, Slide 22 and WTO TPR India (2007).

Table 4.6d. Recently Established or Proposed RTAs/CEPAs by Indonesia (2000-2007)

Trading Partners	Nature of Agreement	Status of Agreement 2007
ASEAN	FTA	Agreement in force
CER	FTA	Framework Agreement signed with ASEAN
China	EPA/ FTA	Framework Agreement signed with ASEAN
Japan	EPA/ FTA	Under negotiation with ASEAN
Korea	FTA	Under negotiation with ASEAN
Inda	FTA	Under negotiation with ASEAN
USA	TIFA	Under negotiation with ASEAN
EU	FTA	Under negotiation with ASEAN
Japan	EPA/ FTA	EHP
USA	FTA	Proposed
Pakistan	FTA	Under study
India	FTA	Under study
Japan	EPA/ FTA	Under discussion
Australia	FTA	Proposed
New Zealand	FTA	Proposed

Source: Razeen Sally, (2007) EU-Asia FTAS, Slide 32, WTO TPR Indonesia (2007) and bilaterals.org.

Table 4.6e. Recently Established or Proposed RTAs/CEPAs by China (2000-2007)

Trading Partners	Nature of Agreement	Status of Agreement 2007
Pakistan	FTA	Agreement signed
ASEAN	EPA/ FTA	Framework Agreement signed
Singapore	FTA	Under negotiation
Thailand	PTA	Agreement in force
India	BIPA & FTA	Proposed
Australia	FTA	Under negotiation
New Zealand	FTA	Under negotiation
Macao	EPA/ FTA	Agreement in force
Hong Hong	EPA/ FTA	Agreement in force
Chile	FTA	Agreement in force
SACU	FTA	Proposed
GCC	FTA	Under negotiation
Iceland	FTA	Proposed
Korea	FTA	Under study
Japan	FTA	Proposed
Peru	FTA	Proposed
Norway	FTA	Proposed

Source: Razeen Sally, (2007) *EU-Asia FTAS*, Slide 9 and WTO TPR China (2006).

Table 4.6f. Recently Established or Proposed RTAs/CEPAs by South Africa (2000-2007)

Trading Partners	Nature of Agreement	Status of Agreement 2007
SACU	RTA	Agreement in force
European Union	EPA/ FTA	Agreement in force with SACU
India	FTA	Under Negotiations with SACU
Mercosur	FTA	Framework Agreement Signed
SADC	PTA	Agreement signed
Nigeria	FTA	Proposed
Zimbabwe	FTA	Agreement in foce (1990)
Malawi	PTA	Agreement in force (1968)

Source: SAIIA and WTO TPR SACU (2003).

Table 4.7. World Ranking in Ease of Doing Business (2007)

	Ease of Doing Business	Starting a Business	Dealing with Licenses	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
US	3	4	24	1	10	7	5	76	15	8	18
Singapore	1	9	5	1	13	7	2	2	1	4	2
Hong Kong	4	13	60	23	58	2	3	3	3	1	15
Japan	12	44	32	17	48	13	12	105	18	21	1
Brazil	113	120	95	116	109	80	62	139	70	112	136
Russia	112	45	172	102	44	156	81	126	155	19	81
India	120	111	134	85	112	36	33	165	79	177	137
Indonesia	123	168	99	153	121	68	51	110	41	141	136
China	83	135	175	86	29	84	83	168	42	20	57
South Africa	35	53	45	91	76	26	9	61	134	85	68

Note: The numbers correspond to each country's aggregate ranking on the ease of doing business and on each of the ten topics that comprise the overall ranking.

Source: The World Bank Doing Business Database: http://www.doingbusiness.org.

Table 4.8. Indicators for Trading Across Borders (2007)

	Ease of Trading Across Borders (World Ranking)	Documents for export (number)	Time for export (days)	Cost to export (USD per container)	Documents for import (number)	Time for import (days)	Cost to import (USD per container)
OECD	-	4.5	9.8	905	5	10.4	986
US	15	4	6	960	5	5	1.16
Singapore	1	4	5	416	4	3	367
Hong Kong	3	4	6	525	4	5	525
Japan	18	4	10	989	5	11	1.047
Brazil	70	8	18	1090	7	22	1240
Russia	155	8	36	2050	13	36	2050
India	79	8	18	820	9	21	910
Indonesia	41	5	21	667	6	27	623
China	42	7	21	390	6	24	430
South Africa	134	8	30	1.087	9	35	1.195

Note: The costs and procedures involved in importing and exporting a standardised shipment of goods are detailed under this topic. Every official procedure involved is recorded – starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

Source: The World Bank Doing Business Database: http://www.doingbusiness.org.

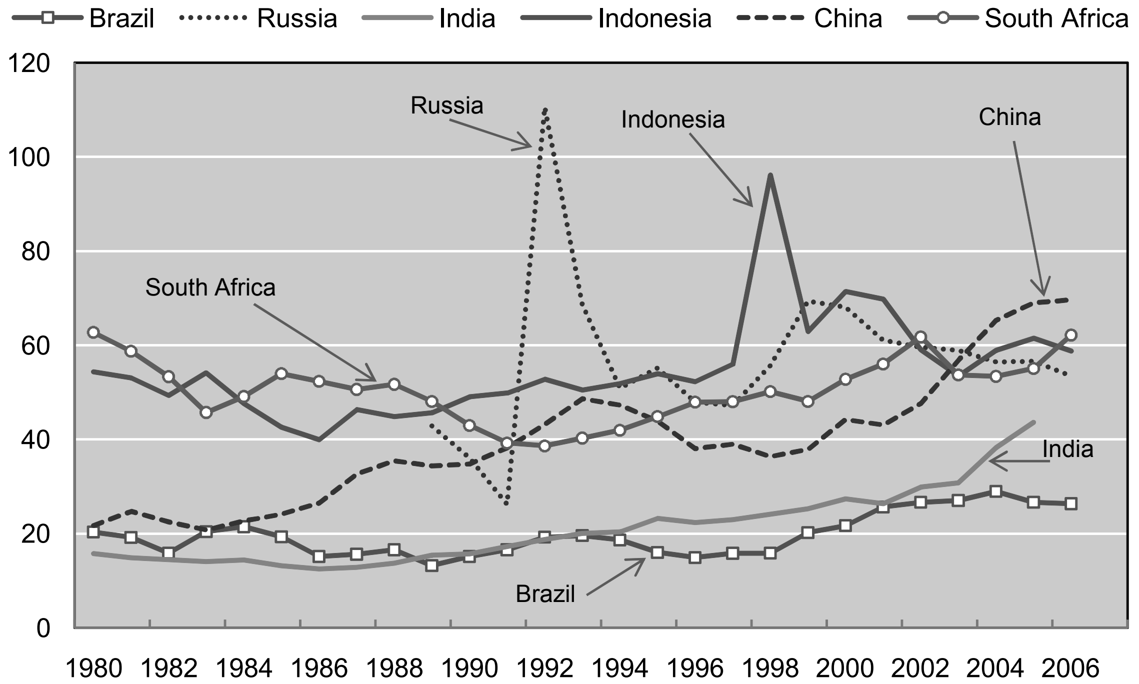
Table 4.9. Percentile world rank of governance indicators for year 2006(Governance Matters 2007 – World Wide Governance Indicators 1996-2006)

	Voice and Accountability	Political Stability/ No Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
OECD	90.6	76.4	90.0	89.6	90.0	90.2
US	83.7	57.7	92.9	93.7	91.9	89.3
Singapore	46.6	94.7	99.5	99.5	95.2	98.1
Hong Kong	64.9	88.9	93.8	100.0	90.5	92.7
Japan	75.5	85.1	88.2	87.3	90.0	90.3
Brazil	58.7	43.3	52.1	54.1	41.4	47.1
Russia	24.0	23.6	37.9	33.7	19.0	24.3
India	58.2	22.1	54.0	48.3	57.1	52.9
Indonesia	41.3	14.9	40.8	43.4	23.3	23.3
China	4.8	33.2	55.5	46.3	45.2	37.9
South Africa	67.3	44.2	76.8	70.2	58.6	70.9

Note: Percentile rank indicates the percentage of countries worldwide that rate below the country (subject to margin of error). Higher values indicate better governance ratings. Percentile ranks have been adjusted to account for changes over time in the set of countries covered by the governance indicators.

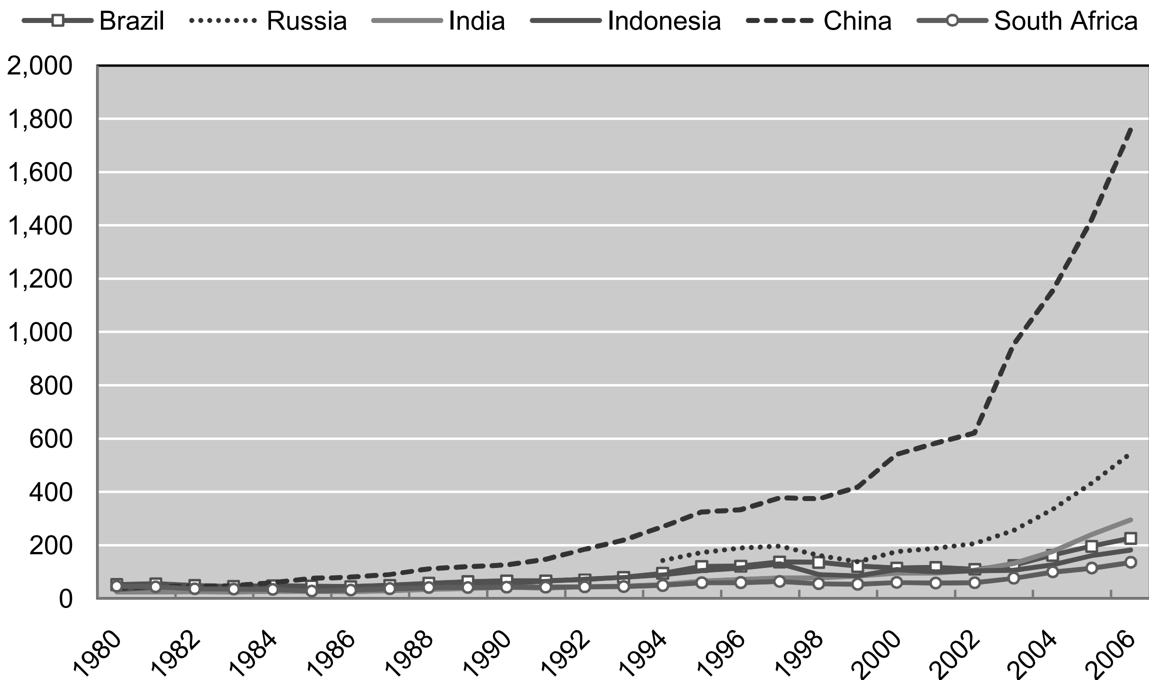
Source: World Governance Indicators: http://www.govindicators.org.

Figure 4.4. Trade of goods and services as a percentage of GDP, 1980-2006



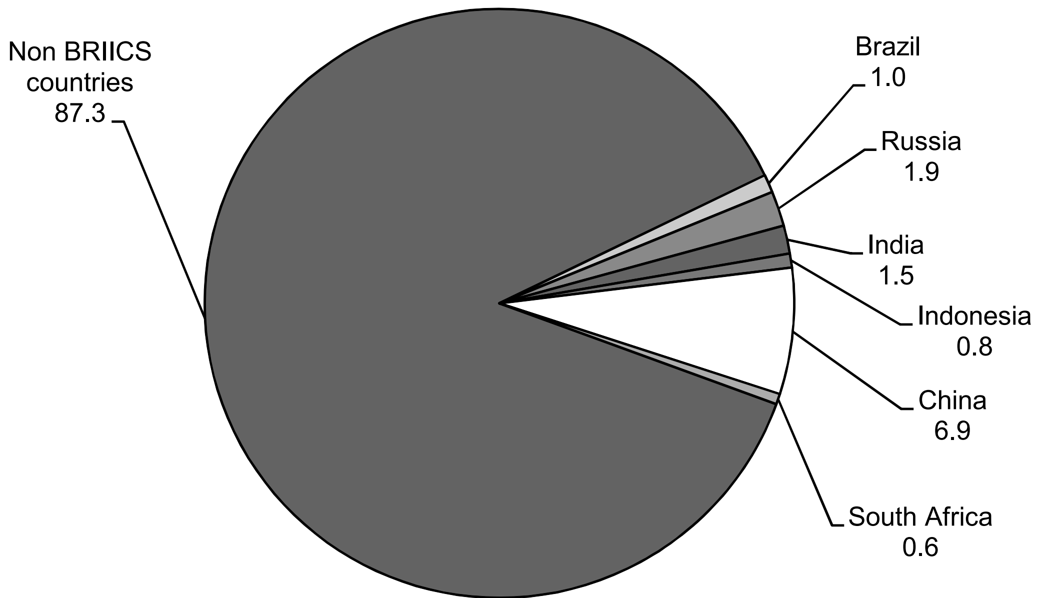
Source: World Bank World Development Indicators (WDI).

Figure 4.5. Total Trade (Goods and Services) in USD bln for BRIICS (1980-2006)



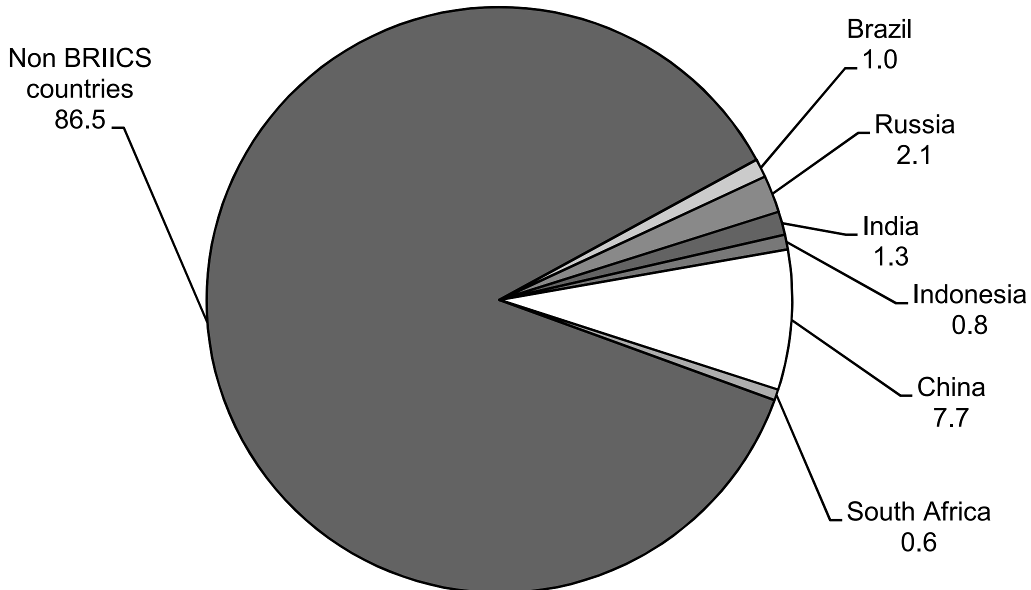
Source: World Bank World Development Indicators (WDI).

Figure 4.6. BRIICS Share in Global Trade in Goods and Services (2006)



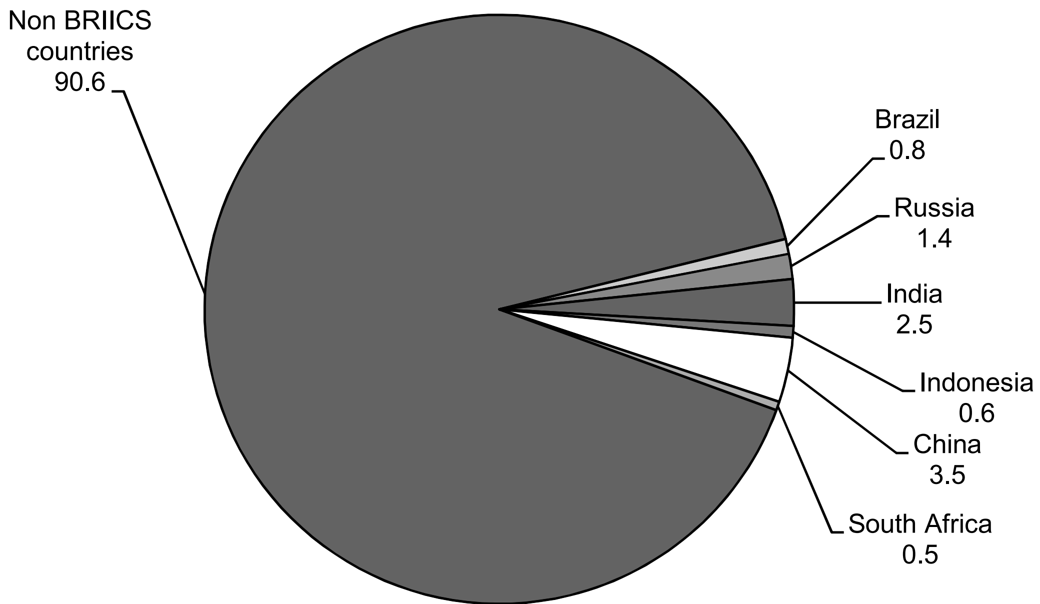
Note: Data including intra EU25 trade.
Source: WTO Statistics.

Figure 4.7. BRIICS Share in Global Trade in Goods (2006)



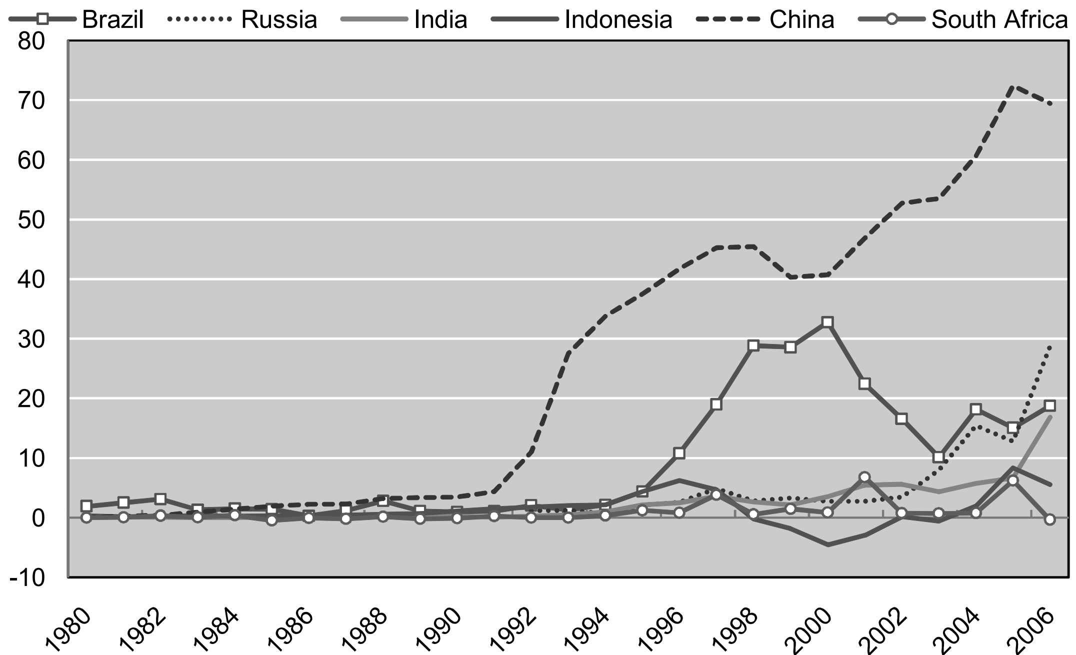
Note: Data including intra EU25 trade.
Source: WTO Statistics.

Figure 4.8. BRIICS Share in Global Trade in Services (2006)



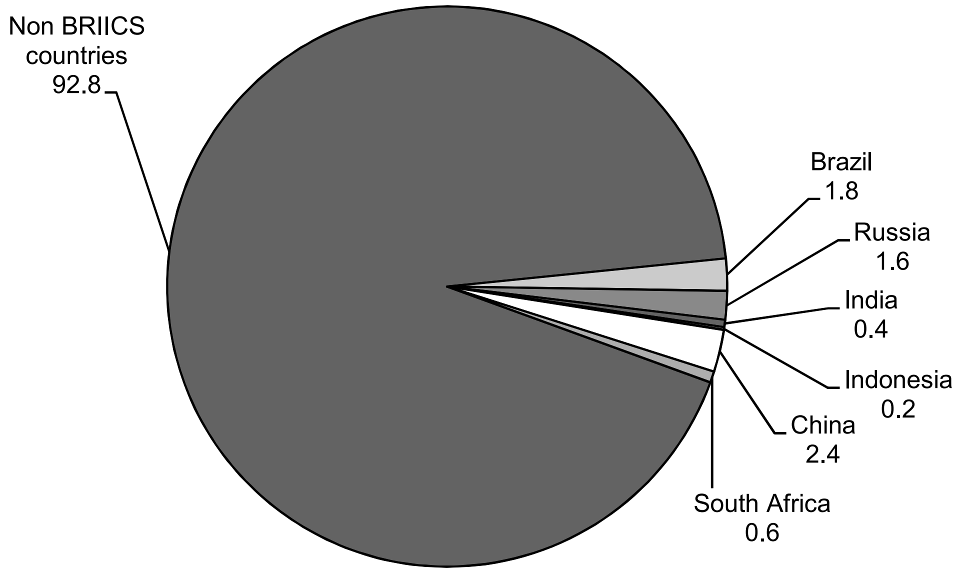
Note: Data including intra EU25 trade.
Source: WTO Statistics.

Figure 4.9. Inward FDI flows for BRIICS in USD bln (1980-2006)



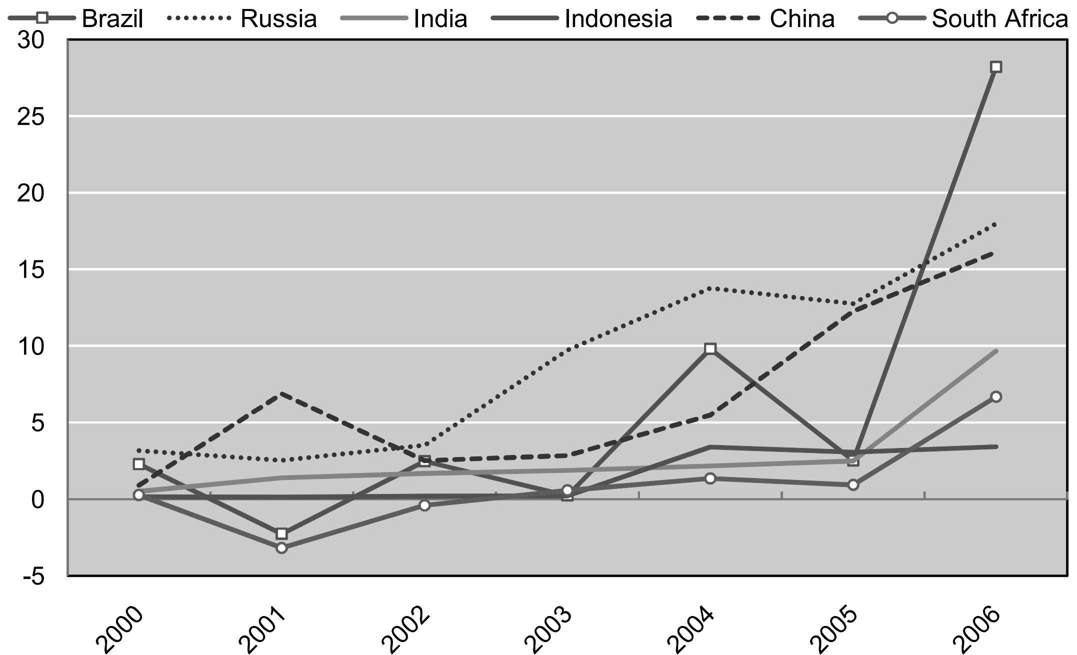
Source: UNCTAD World Investment Report (WIR):
http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1.

Figure 4.10. Share of Global Inward FDI Stock for BRIICS (2006)



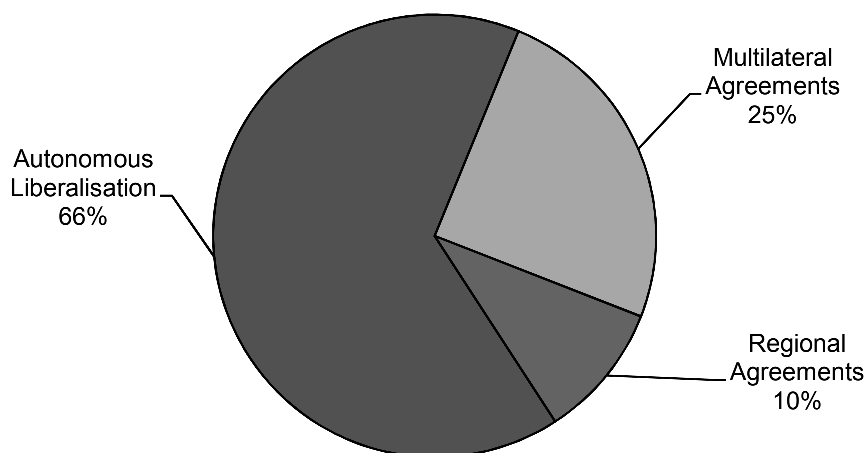
Source: UNCTAD World Investment Report (WIR): http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1.

Figure 4.11. Outward FDI flows to BRIICS in USD bln (2000-2006)



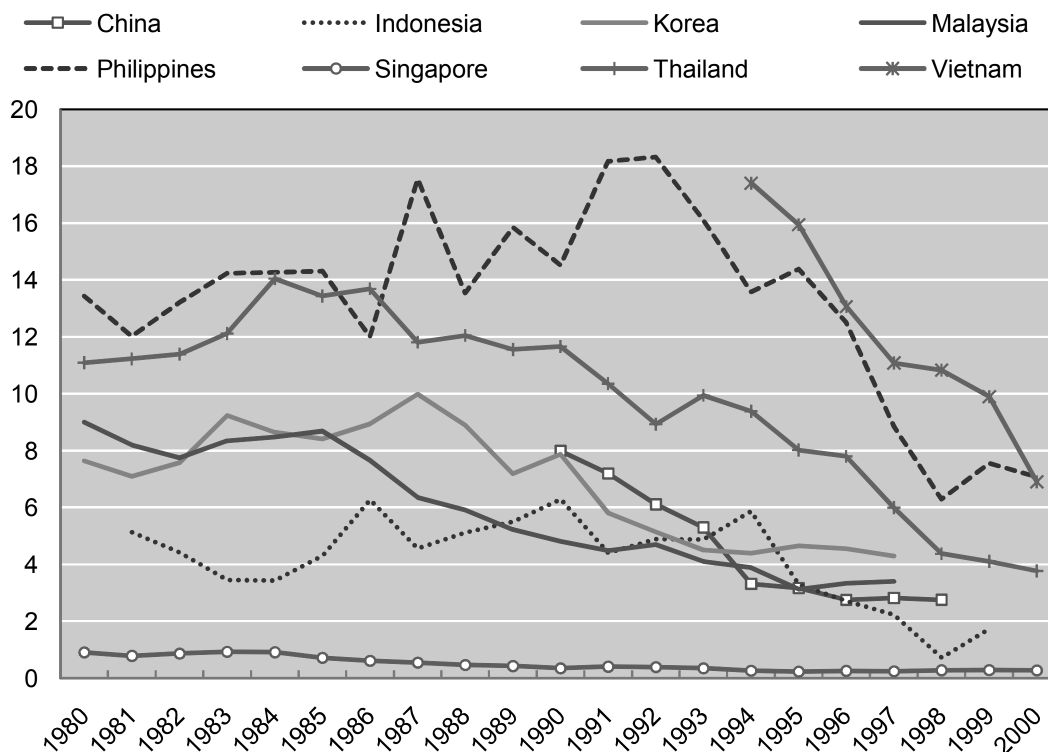
Source: UNCTAD World Investment Report (WIR): http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1

Figure 4.12. Share of total tariff reduction, by type of liberalisation (1983–2003)



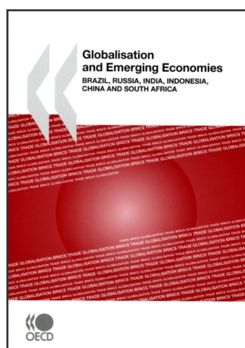
Source: World Bank: http://siteresources.worldbank.org/INTGEP2005/Resources/GEP107053_Ch02.pdf.

Figure 4.13. Tariffs in East Asia, import-weighted (1980-2001)



Source: Ando and Kimura (2005)*, which was drawn from Ando and Estevadeordal (2003). (Original data source: World Bank Indicators 2002 (CD-ROM)) and also used by Baldwin (2006).

*Ando, M. and Kimura, F. (2005). The formation of international production and distribution networks in East Asia. In T. Ito and A. Rose (Eds.), *International trade* (NBER-East Asia seminar on economics, volume 14), Chicago: The University of Chicago Press. First version, NBER Working Paper 10167.



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