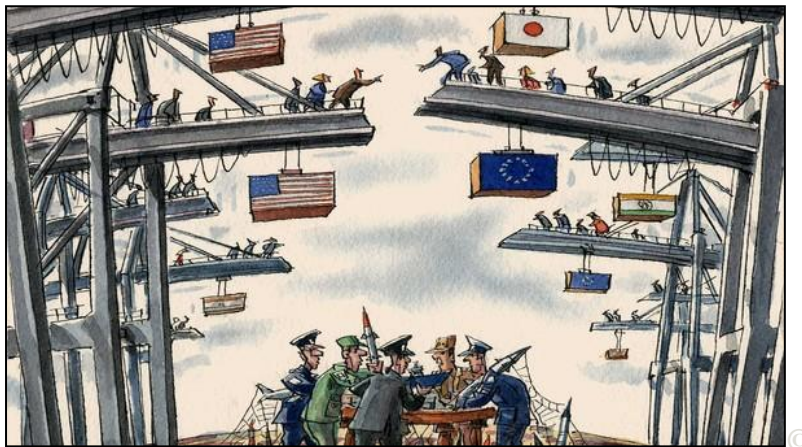


Trade trumps missiles in today's global power plays

By Philip Stephens

China is waking up to the fact it is being left behind as the west clings to economic power



Stop counting carrier fleets, fighter jets and cruise missiles. America's wars in Iraq and Afghanistan showed the limits of military might. Today's great games revolve around another dimension of power. **Geopolitics is making way for geoeconomics.**

There are **three sets of big international negotiations** under way. They promise to draw the contours of the post-western world, fix the point of the balance between advanced and rising states, and describe China's place in world. They will decide what can be salvaged from the present multilateral system. The choice lies between open global arrangements and an economic order built around competing blocs.

The immediate focus is on trade. Successful conclusion of the Trans-Pacific Partnership talks would cement US economic integration with much of east Asia. A parallel Transatlantic Trade and Investment deal would reinject cohesion into Washington's relationship with Europe. Alongside these regional pacts, the EU is negotiating bilateral deals with India and Japan. To complete the patchwork, the US and EU are leading talks between more than 20 advanced and rising economies to liberalise trade in services.

Pull the strands together and the message is that the west has given up on the grand multilateralism that defined the postwar era. More striking still, each of the proposed new agreements would leave China on the sidelines. The exclusion of the world's second-biggest economy is more than a coincidence.

China has been the big winner from the open global economy. The US is asking why it should further expand arrangements that empower its rival. The US response to China's rise has long been to engage and hedge – to draw in Beijing to a rules-based system while refurbishing old alliances as an insurance policy. The emphasis now is on hedging.

The attraction of the **new “midi-lateralism”** is that it would strengthen the west's grip on global standards and norm-setting. Europeans are more instinctively inclusive than Americans, and many suggest regional deals offer a path to more inclusive agreements. But the US is not alone in its anxiety to hold on to economic power. A French diplomat friend tells me that Paris signed up to the TTIP talks because it “fears China more than it hates the US”. I don't see Washington rushing to invite China into the TPP.

There is no guarantee, of course, that the pacts will be concluded. The scope and scale of US snooping by US intelligence agencies has soured transatlantic relations. Japan will struggle to meet the demands imposed by the TPP. Visiting India last week, I sensed little urgency about an EU trade deal.

One problem is that this next generation of agreements would reach well beyond tariffs into regulation, public procurement and standards. This challenges powerful vested interests and awakens political neuralgia about national sovereignty. Another is that governments are not organised to grasp the strategic significance of economic agreements. Presidents and prime ministers like to talk about war and peace. Trade is for technicians. There is no one to look at the big geoeconomic picture.

My sense is that western governments will labour mightily to avoid a breakdown of the various talks. They need the growth promised by a further opening of markets. Failure would carry a heavy price. Better to quietly dilute some of the original ambitions. This is the west's last chance to hold on to economic power.

China is waking up to fact that it is being left behind. Beijing has asked to join the trade in services negotiations and has suggested that talks with the EU on investment rules could be followed by the negotiation of a trade pact. The responses from Washington and Brussels have been distinctly lukewarm. China is seen as free-rider on the multilateral system. The US and Europe want evidence Beijing is ready to open up its economy.

The risks of fragmentation of international trading rules are obvious enough. A positive sum can quite quickly become a zero sum game, carrying the unfortunate flavour of a contest between the west and the rest. Sidelineing China would carry threats to the existing fabric of the global system; and history throws up some ugly examples of how disputes about trade are the precursor to more serious conflict.

Much may depend on outcome of the **two other sets of negotiations** promising to test allegiance to multilateralism. One will decide whether it is possible to secure a global accord on climate change; the other whether rich nations are ready to extend the help for poor nations enshrined in the soon-to-expire millennium development goals.

The debates in both cases centre on rights and responsibilities. How to share out the burden of cutting carbon emissions; how much should the west pay for development? Should western largesse be matched by greater responsibility on the part of the recipients?

Behind the specifics lies the \$64,000 question. Do governments from north and south, or west and east have the political will and energy to recognise their mutual interest in new multilateral agreements? The signs are less than hopeful.

The US is more comfortable with coalitions of the like-minded than with multilateralism. Governments elsewhere pay lip service to the facts of interdependence while jealously guarding outdated notions of national sovereignty. Enlightened self-interest is an approach lost on today's world leaders. Globalisation without global rules may work for a while, but it will not last.