

# Reinventing Free Trade Agreements in an Interdependent World: India, China and Mercosul

*Vitor Bento*

## Introduction

Before delving into the specific cases proposed in the title of the panel, let me first make a few introductory points relating to the context of the theme.

**First**, we should be careful not to mistake the post-1990 moment for a historical norm and should avoid romanticizing the idea of “free trade” as if trade had ever been entirely free, neutral, or purely economic. International trade has almost always been intertwined with political power and strategic interests.

If we look back to the nineteenth century, for example, we find the British Empire fighting the Opium Wars to force open the Chinese market to British exports of a narcotic that was illegal under British law itself, and that today Western countries themselves criminalize and repress domestically.

The ensuing asymmetric Treaty of Nanking, imposed on China, turned out to be the founding template of what the Chinese still call the century of humiliation. This historical episode reminds us that the language of commercial openness has often coexisted with profound asymmetries of power. And it is worth remembering, when discussing contemporary Chinese economic statecraft, that it is in part a deliberate refusal to ever occupy that position again.

International trade systems have historically reflected the strategic structure of their time. Trade certainly creates wealth and mutual gains, but markets do not exist outside political frameworks. They are created, protected, regulated, and sometimes imposed by political power. In that sense, what we are witnessing today is perhaps not the politicization of trade, but rather the end of the illusion that trade had ever ceased to be political.

Therefore, what feels today to us in the West like the sudden intrusion of power into commerce is, in large part, the unfamiliar experience of being on the receiving end of it.

**Second**, we should bear in mind that what we had until recently was a liberal order established after WWII and reinforced after the end of the Cold War, under American strategic hegemony.

The dominant assumption was simple: economic integration would generate prosperity; prosperity would reduce rivalry; and economic convergence would gradually foster political convergence. In many ways, this vision was extraordinarily successful, as globalization contributed to massive economic growth, unprecedented reductions in extreme poverty, technological diffusion, and the integration of vast regions of the world economy.

Yet, the same process also generated consequences that were not fully anticipated, the most important of which was the rise of China, whose economic integration did not produce the expected political convergence. China integrated successfully into the global economic system without giving up its very different political and strategic model.

This forced many Western countries to rethink some of the assumptions that had guided globalization since the 1990s, at the same time that other events reinforced the shift.

The COVID pandemic exposed the fragility of highly concentrated supply chains, as countries suddenly realized that they lacked domestic production capacity for essential goods, such as pharmaceuticals, medical equipment, semiconductors or strategic components.

Then came the war in Ukraine, which demonstrated how energy dependences could become a strategic vulnerability.

Today, trade is no longer viewed simply through the lens of efficiency. It is increasingly viewed through the lens of economic security. And this is, I believe, the central transformation we are witnessing.

The key issue is no longer simply whether interdependence generates prosperity. It clearly does. But the key issue is now who controls the critical dependencies created by interdependence.

The **third** point I would like to stress is that trade also impacts on the financial system, as the flows of goods and services have to be paid for in cash, with foreign exchange reserves, or through credit. So, trade imbalances — both surpluses and deficits – also generate financial imbalances, which can easily get out of control and become world destabilizers.

As was the case with the Great Financial Crisis of earlier this century when the accumulation of wide trade surpluses by China and major oil producers gave rise to a global savings glut that drove down interest rates, spurred an irrational lending spree, and the financial engineering that produced an immeasurable amount of risky assets, all ultimately bursting in the financial wrecking we all know.

### **The New Trade Environment: China, India and Mercosur**

In the new geostrategic context we live now, Free Trade Agreements are becoming instruments of geostrategic re-organization. They are no longer merely frameworks for commercial exchanges; they are increasingly becoming structures for organizing power relations within the global economy. So, let me take a brief tour over the three cases signaled in the title of this panel.

**China** seems to represent perhaps the clearest example of strategic integration into globalization. It seems to have understood that industrial capacity can mean geopolitical capacity and that technological ecosystems as well as control over supply chains matter. In the same way that is more effective to weaponize control rather than scarcity.

Beijing used globalization not merely to grow economically, but to increase strategic autonomy and structural influence, by combining deep global integration, strong state coordination, long-term strategic planning, and deliberate technological upgrading. As a result, China profoundly transformed the global balance of economic power.

And it should not be forgotten – coming to the third point I made earlier – that by accumulating vast trade surpluses over decades, China managed to accumulate a huge pile of financial claims that turned it into one of the wealthier countries and the largest world creditor.

**India**, in turn, represents a rather different approach. Although seeking growth, industrialization and integration into global markets, like others, India has traditionally placed a great emphasis on strategic autonomy. Its approach to globalization has generally been more cautious, more selective, and more sovereignty-conscious.

It participates in globalization, but without becoming excessively dependent on any single bloc or strategic alignment – from the strategy of non-alignment pursued during the Cold War, it converted such strategy into the more modern denomination of strategic autonomy, being, at par with continental Europe, the locus of most academic writings on the subject.

India may therefore become one of the major balancing powers. In such context, the recent FTA between European Union and India may be seen more as an instrument of partnership, or strategic alignment, with a commercial chapter, than an FTA proper.

**Mercosur** presents yet another reality — and perhaps the most open one. It is the case of integration that has not yet been converted into strategic agency. Its challenge is not primarily external competition, but the internal fragmentation that holds it back from acting as a strategic subject: political instability, institutional asymmetries, inconsistent economic policies, and limited strategic coordination.

Which raises the important question of knowing if regional integration projects become genuine strategic actors in a world of large economic blocs and intensifying competition; or if they remain primarily fragmented collections of national economies negotiating from relatively weaker positions. This will certainly be one of the central strategic questions for Latin America in the coming decades.

## **Conclusion**

The current geopolitical context alluded to before gives rise to fundamental political-economic tensions of the current phase of globalization, namely the one between efficiency and resilience.

The global economic model of recent decades prioritized maximum efficiency, to be achieved through lowest cost production, just-in-time logistics, and optimization of supply chains. Economically, this made enormous sense. But politically, it also created strategic vulnerabilities, as, for example a supply chain can be economically efficient and strategically irrational and maximum efficiency may produce maximum fragility.

This is why the new grammar of economic policy discussions is emphasizing new words and concepts such as de-risking, friend-shoring, strategic autonomy, diversification, and resilience

All in all, economic interdependence remains profound, but we are witnessing the reorganization of globalization along strategic lines, moving away from the idea of a fully universalized and politically neutral global economy and toward a world characterized by selective interdependence, strategic regionalization, technological blocs, and partial fragmentation.

The challenge is not eliminating interdependence, but to govern it intelligently.

Thank you.