

Managing Global Security: the Strategic Importance of Global Trade

[Terrorism is about Increasing Instability and Global Trade Rules are about Promoting Stability]

Speech by Director-General Pascal Lamy to the International Institute for Strategic Studies (Geneva), Global Strategic Review Conference (September 8, 2007).

http://www.wto.org/english/news_e/sppl_e/sppl66_e.htm

The link between trade and security is not new. Back in the XVIII century Montesquieu wrote in his famous work, *The Spirit of the Laws*, “*the natural effect of trade is to bring about peace; when two nations negotiate together they become dependent on each other; if one has an interest in buying and the other one has an interest in selling; they develop mutual needs*” .

The same idea was used at the end of World War II by the US delegation to the Havana Charter negotiations when he encouraged countries to join in, saying “if goods do not cross frontiers, soldiers will”. The Havana Charter creating the International Trade Organisation ultimately failed, but the main elements of it, including its spirit, remained in what became the GATT, the predecessor of the World Trade Organization.

As history shows, trade can help build security and stability. But history also offers many examples of trade as a factor of tension or even war. And I believe this double-sided relationship remains true today. Global trade can be one of the main pillars of global security, but only under the right conditions. These conditions have to do with rules, policies and institutions. This is the substance of my argument this morning.

Both Ways

Trade expansion can work both ways. If we start from a simple — maybe simplistic — assumption according to which insecurity stems from either want or fear; trade expansion in today's world can play both ways.

An increase in trade flows can contribute to improving security. For many developing countries, trade has been a vital instrument for reducing poverty and raising levels of development. One need only look at Korea, Malaysia or Singapore to see how trade can help raise living standards. Two developing countries with very large populations, India

and China, have in recent years experienced impressive growth rates. In the same period both countries pursued policies that allowed their economies to become increasingly integrated into the global economy. China, in particular, acceded to the WTO in 2001, since when its GDP has nearly doubled. Such examples may explain why some have praised globalization as the “most powerful — and life-enhancing — force on earth.”

An increase in trade flows creates an economic interdependence among countries which leads to a better knowledge of each other. At the origin of many of today's conflicts lies a lack of understanding of each others' differences. There is no doubt that under this perspective, trade brings countries closer to each other and can therefore help anchor relations.

Trade has also shown its importance in post-conflict processes. The Balkans is a good case at hand. Building a network of trade agreements among these countries once part of Yugoslavia, helped bring them together. A contrario, the dire situation of trade keeps fuelling both poverty and resentment in the Palestinian territories.

Today's globalization, has led to the opening up, even the disappearance of many barriers and walls, and has the potential to expand freedom, democracy, innovation, social and cultural exchanges, while offering outstanding opportunities for dialogue and understanding.

But the other side of the coin is still there: the global nature of an increasing number of worrisome phenomena: the scarcity of energy resources, the deterioration of the environment and proliferation of natural disasters, the spread of pandemics, the growing interdependence of economies and financial markets — as evidenced by recent events — and migratory movements provoked by insecurity, poverty or political instability, are also products of globalization; of which trade opening is part.

If the opening up of markets has the potential to produce benefits for many, it also has its costs and its capacity to generate anxiety or fear. The imbalances created between winners and losers from trade opening are more dangerous to the more fragile economies, societies or countries. More competition from foreign producers impacts on the socio economic fabrics in our societies and creates turbulence, which can be magnified in the public debate, as we can see from issues such as outsourcing or delocalisation which have become buzzwords in political campaigning.

As a result, public opinion has become considerably more anxious about the effects of globalization. Trade is today perceived as the most visible face of globalisation. Confronted with the negative effects of trade opening, our societies are starting to see protectionist moves. We saw in the 1930's the quasi-inexorable chain of events that leading from the spread of protectionism to war and the role social pain and unrest played in this domino process.

If trade can fuel both security and insecurity, how do we ensure that it plays the right way, and not the wrong way? My answer to this question is: we can do it through rules and institution-building, and this is very much what the WTO is about. But this has to be accompanied by the right domestic and international policies, most of which lie outside the remit of the WTO.

Rules

The WTO comprises a set of rules and procedures to lock-in trade opening. This was already true of the GATT, which contained three basic rules: (1) non-discrimination between trading partners (the Most-Favoured-Nation rule); (2) non-discrimination between domestic and imported products once goods go through customs; and (3) binding of import tariffs — and only import tariffs — or the “security of concessions” — i.e. the obligation to respect the maximum import tariff for goods, usually agreed with other countries during a multilateral round of trade negotiations. These rules have been expanded to trading services through different devices because services do not cross borders in the same way as goods.

The aim of the founding fathers of the GATT was therefore to ensure transparency, predictability and a level playing field in order to avoid the return to the catastrophic protectionist policies I already mentioned.

The WTO agreements expanded these three basic principles to a 500-page set of rules that has become the cornerstone of world trade in goods, services and intellectual property rights. And all this with a priority given to multilateral deals over bilateral ones.

But to be effective, rules have to be fair, which implies that they are updated as necessary. This issue of fairness of global trade rules is at the top of today's WTO agenda. Developing countries consider that a number of the substantive rules of the WTO do perpetuate some bias against developing countries. They have argued that 50 years of rule-making in the WTO has been dominated by developed countries — the old QUAD (comprising the United States, Japan, the European Union and Canada) — to the detriment of developing countries.

To understand why, it is instructive to look at the evolution of market access in two sectors in which developing countries are generally expected to have a comparative advantage: textiles and agricultural products.

With respect to textiles, the outcome of the Uruguay Round in 1995 allowed for another 10 years of textiles quotas ending in 2004, notwithstanding the GATT/WTO general prohibitions on quantitative restrictions. But developed countries still maintain what we call tariff peaks in these sectors.

A similar picture arises when looking at the rules for subsidies in agriculture which, contrary to the general rules on subsidies, allow for various forms of farm support. Both

exceptions tend to benefit producers in rich countries to the detriment of those in developing countries.

Existing trade rules also give the impression of bias when they are analysed from a wider point of view. Along the development path, countries typically diversify and move from the production and export of raw material into that of processed and final goods. Existing tariff structures of developed countries render this process difficult, as tariff levels are lower for raw materials than for processed or final goods. Indeed, significant levels of “tariff escalation” can be observed in the textile and clothing sector and for leather and leather products. The same is true for agricultural products such as cocoa, coffee, cotton or soybeans.

In sum, while the political decolonization took place more than 50 years ago, we have not yet completed the economic decolonization. It is therefore one of the purposes of the current multilateral negotiations launched in Doha in 2001 — the Doha Development Round — to continue the rebalancing of our rules in favour of developing countries.

Where are we on this? After more than 5 years of negotiations we are entering the last lap. Last July we managed to produce draft compromise texts on two key areas of the Round: agriculture and industrial products. The many hours of discussions, negotiations and proposals have now crystallised into the backbone of a final deal on the main chapters of the agreed agenda of the negotiations. But these draft compromise texts still reflect the gaps which exist in the positions of the Members which we need to close. This week we have resumed the negotiations in what will be an intensive process over the coming weeks.

The deal is doable but we need a final push to conclude the Round. Just the day before yesterday, in Sydney, I asked APEC leaders and ministers to ensure that concluding this trade round is their political priority. We will not conclude this Round without political engagement and energy. Now I am back in Geneva with a sense of engagement and commitment that should help create the necessary momentum.

Policies

Agreeing the necessary updating of multilateral trade rules is one condition for making trade work for development, hence for global security. But this is not sufficient. We also need to see the right domestic policies if trade is to contribute to growth, poverty alleviation and thus to overall security, instead of generating anxieties. Education policies, spending in innovation and R&D, competition policy, redistribution policies and modernising of infrastructures, are key elements.

These are challenges faced by all countries alike. However, developing countries are typically challenged by inadequate or even non-existent social safety nets. For the poor in such countries, losing their job as a result of trade reform can cause severe hardship. It is one thing to lose your job when you are entitled to unemployment benefits or to trade

adjustment assistance, but it is quite another thing to become unemployed when this reduces your income to zero.

This is why the international system decided to step in — so as to ensure that market opening translated into tangible benefits for individuals in developing countries. In the most vulnerable Member countries — particularly the least-developed countries — adjustment costs, along with capacity constraints related to supply responses to globalization, cannot be left to be taken care of through national budgets or by the private sector alone. We therefore have to build an effective international response to complement these countries' efforts in opening trade. Managing public support for trade expansion in these countries means helping people to benefit directly from it — training officials, strengthening institutions and building infrastructure that will help businesses grow, create jobs, and allow these countries to expand and diversify their trade.

With these additional problems in mind, I advocated including the debate on Aid for Trade in the WTO agenda, as well as substantially increasing the funding of Aid for Trade whether it is multilateral (through the World Bank, UN agencies), regional (through regional development banks) or bilateral (through the European Development Fund, USAID or the Millenium Challenge Account, for example). Aid for Trade has an important political role to play to complement the trade negotiations. Increasing Aid for Trade is not contingent on the Round, but its value and importance will be greatly increased if it is implemented in conjunction with substantial new market access opportunities and new rules that will facilitate trade.

It is clear that I see an important role for national governments and for international institutions, like the WTO, in guaranteeing the stability of the global economy in general and of the multilateral trading system in particular. I strongly believe that markets do a better job, the better the institutional environment in which they act. Markets do a good job in creating wealth, but they do not care about the distribution of this wealth. I therefore strongly believe in the positive role of governments and I agree with others that the days of the Washington Consensus have passed. It is now time for what I call a “Geneva consensus”.

Assuming we have the right set of rules, and that domestic and international flanking policies help translate the benefits of trade opening into welfare, the contribution of global trade to global security also has to do with the right institutional framework, which we know is much more of a challenge at the international level than at the national level.

Institutions

What then are the specific challenges of international or global governance as opposed to the classic systems of national governance?

In my view, elements of legitimacy must be based on institutions and procedures. Classic legitimacy entails citizens choosing their representatives collectively by voting for them.

But it also relies on the political capacity of the system to bring forward public discourse as well as proposals that produce coherent majorities and provide citizens with the feeling that they can debate the issues. In other words, the political system must represent the society, and allow it to see itself as a whole, with all its members using the same language and experiencing the same feelings.

Since legitimacy depends on the closeness of the relationship between the individual and the decision-making process, distance challenges the legitimacy of global institutions. Hence the so-called democratic deficit or the accountability deficit, which arise when there are no means for individuals to challenge international decision-making.

The specific challenge of legitimacy in global governance is therefore to deal with the perceived too distant, non-accountable and non-directly challengeable decision-making at the international level.

The second element in the validation of power is efficiency. Citizens expect governments to be able to identify the problems and expect results from institutions with political responsibilities. But quantifying efficiency in concrete terms is not easy. When power is remote and when there are multiple levels of government, the task becomes even more complicated.

The efficiency challenge of any global governance system stems from the fact that the classic Westphalian order is based on the full sovereignty monopoly of nation states. We must find ways to address the opposition from sovereign nation-states who resist more or less intensely — depending on the state and on the subject matter — transferring or sharing with international institutions their jurisdiction over certain matters.

A further specific challenge is that of the lack of coherence among international institutions. Even when traditional state power is (partly) transferred to an international institution, it is handed over only to very specialized international institutions whose mandates are limited and whose direction/instructions come solely from nation-states' authorities. Coherence, like charity, should begin at home. It lies first and foremost with States. But we all know that States are often not coherent and do not act coherently, so how can the actions of their institutions be coherent? The overall specific efficiency challenge of global governance is to deal with partial and incoherent efficiency.

Where does the WTO stand on these two major issues for international organisations?

First, on legitimacy: the WTO is a classic international organization where governments are Members. Many argue that the WTO has problems of accountability. I believe that accountability with our Members is high. The old club of the GATT has now given way to new groupings of states and coalitions: a new G-6 (Australia, Brazil, EU, India, Japan, USA) has replaced the old QUAD (Canada, EU, Japan, US). The proposals of the G-20 — an alliance of developing countries on agriculture — are now the benchmarks in many areas of the on-going negotiations. There are also important new actors, such as the G33

group of developing countries or the African Group of nations. With around 150 Members today, decisions to be taken by the entire Membership are first prepared in smaller formats, like committees in a parliament. Consensus among all Members for the adoption of decisions ensures legitimacy vis-à-vis Members. In many ways the WTO has adjusted to geopolitical changes much faster and much better than other IGOs, e.g. the Bretton Woods institutions, or even the Security Council.

But I must acknowledge that this remains unconvincing for many of the critics of the legitimacy of the WTO, who do not accept the Westphalian notion that legitimacy is “transitive”, ie that the legitimacy of an international organisation is nothing more and nothing less than the legitimacy of its members.

Where is the WTO on the efficiency scale?

On efficiency, the track record of the WTO is no doubt much better than average. In terms of results, the GATT/WTO has provided the world with stable rules for international trade for the last 60 years. More importantly, it has set up a system where international rules have to be abided by. In the WTO, the non-observance of the rules may give rise to litigation and the litigants are bound to accept the decision of the dispute settlement mechanism, whether panels as first instance, or ultimately the Appellate Body. Otherwise, sanctions can be imposed.

In terms of coherence, the record is also reasonably good: contrary to an often heard mantra, trade rules do not take precedence over other areas of international governance such as health or the environment. These concerns are duly recognised by the WTO codes which our Members have negotiated within the Organisation, and this is confirmed by the experience of ten years of dispute settlement. The WTO litigation system has been sensitive to maintaining the balance between trade and non-trade values.

Conclusion

I hope it is now clear to you why and how trade and security are linked. Ladies and gentlemen, 60 years of the multilateral trading system represent today a huge acquis and an important contribution to security and stability. But this acquis cannot be taken for granted. This is why the conclusion of the Doha Development Round has a strategic importance for security.

A success of the Doha Round would give a clear signal that globalisation can be harnessed through the collective efforts of the international community. This would augur well for building further global governance in areas such as climate change or addressing futures obstacles to trade which are more value based such as those related to food security or food standards.

A failure in the Doha Round would lead to resentment and frustration, in particular from developing countries, who have heavily invested in these negotiations as a means to

rebalance the global system in their favour. It would also mean a loss of credibility for multilateralism. Trade should be the easiest area for global governance, given the importance of trade for market capitalism, and the relatively simpler capacity of nation states to regulate trade; certainly much easier than reaching agreements on capital flows, on migration issues or on limits to CO² emissions!

And if one wants one more piece of evidence of the link between multilateral trade and security, just remember that further to the Seattle failure in 1999, it was only two months after 9/11 that countries agreed to the launch of the Doha Round. The rationale of this change was, and in my view remains, simple: terrorism is about increasing instability; global trade rules are about promoting stability.

Looking more long term and at the wider picture, I believe we will see pressure to find the right balance between greater multilateral opening for goods, services and capital, and that relating to the free circulation of people, which in comparison remains essentially subject to strict domestic regulations and limitations.

You know better than I that global security and stability work together, and whichever contribution a rules-based multilateral open trading system can deliver, it will not offset on its own the tensions stemming from restraints on people.

Hence the necessity to consider these elements together. Who can do it? This still remains an open question for the moment, and an interesting topic for the IISS.