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CONSOLIDATING ECONOMIC GLOBALIZATION

Address by Peter D. Sutherland
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I

One cannot come away from an endeavour as ambitious as the Uruguay Round negotiations without a keen sense of the profound changes taking place in the international economic landscape. Little more than a decade ago, the post-war political and economic boundaries which we had come to take for granted in Western Europe and North America were drawn around a largely homogeneous and exclusive group of market economies. They supported around one billion people at living standards which, on average, were much higher than those prevailing elsewhere. To live within those boundaries was to enjoy a relatively comfortable and prosperous existence. Insecurity was largely related to the polarised political world; it was less readily associated with economic or social conditions.

That scenario has begun to look distinctly dated. Political and economic reform over the past ten years, particularly in Eastern Europe, Asia and Latin America, means that we are now experiencing the development of a truly global marketplace. It no longer extends to just one but to more than five billion people. All share broadly the same aspirations and demand the right to compete for the kind of prosperity which until now has been considered the preserve of the privileged minority.

The Uruguay Round was a real opportunity to make those demands heard and to tackle them head on. It was not an opportunity wasted. Developing countries and the economies in transition fought hard and constructively to ensure that the negotiations would end in triumph for liberal, non-discriminatory world trade, not a shamefaced retreat into market-sharing. The result is, of course, testament to the fact that they found the support they needed from their industrialised country trading partners. Yet it is nothing short of ironic to see that resistance to creating just and stable market

access and fair opportunities for all to compete in the global marketplace has been and remains most marked in the industrialised world. Protectionism is now most evident in societies that have been quick in the past to lecture others about the advantages of a competitive market economy.

Globalization of markets is not a planned process. It is the culmination of spontaneous economic reform at the national level. Whatever threats to their vested commercial interests some mature market economies may perceive in that process, it would be a serious error for them to try to resist it and limit export opportunities of countries whose emerging domestic markets are still fragile. Not only would that deal a bitter blow to those countries' economic reforms and to the political courage that lies behind them. Raising protectionist barriers against them now would fly in the face of commercial common sense -- the successful exporters among them today will be the dynamic import markets of tomorrow. The challenge is to strengthen and extend the framework for cooperative policy-making at the multilateral level, so as to nurture economic reform and accommodate vigorous and orderly globalization of markets, not stifle it. That wisdom was not lost on the governments of North America and Western Europe after the war when the GATT, the IMF and the World Bank were created, and it would be a tragic mistake for them to ignore it now.

Liberalisation of international capital flows was in the vanguard of the current process of globalization of markets. The achievement of the Uruguay Round is to extend liberalisation to international markets for goods, services and technology. The Round will give a boost to investment, job creation, sustainable development and economic reform, and it will reinforce the rules and disciplines for free and fair competition at the international level. Through it, the prospects for economic growth and increased living standards around the world will be immeasurably improved. Although it does not, and could not, guarantee success, it is very much a necessary part of the solution to providing shared prosperity. Above all, it offers a means to address the overwhelming problem of severe poverty in different parts of the world that would otherwise be marginalised.

Economic cooperation is setting the pace also for foreign policy-making, and it will be a key to the reinforcement of democracy and democratic institutions in the decades to come. Time and again in this century, national political instability and international political tension have been traceable directly to economic insecurity. Strengthening commercial relations and giving all societies a vested interest in the multilateral trading system is one of the best insurance policies we have against nationalism and xenophobia, and the political mistrust these breed between nations.

All that remains a tall order to fill, and trade policy-makers should avoid whatever temptation they may be feeling these days to rest on their laurels. The conclusion of the negotiations in Geneva was not the end of the process. The results of the Round must now be secured in national capitals through ratification, and a prompt and comprehensive start must be made on the implementation of market access commitments. The achievement of the target for entry into force of the new World Trade Organisation and the multilateral trade agreements will give us all something extra to celebrate next New Year's Eve.

II

Looking beyond Marrakesh, there is already a new agenda pending that will move us forward beyond the results of the Uruguay Round. Further liberalisation of trade in services and a comprehensive work programme on trade and the environment will begin this summer in the foreshadow of the WTO, and there is a burgeoning list of other new issues being proposed. Although the global economy took a giant step closer to becoming a reality last December, there still remain far

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too many unnecessary and destructive restrictions on trade flows and international economic activity. The sooner they can be addressed effectively on a multilateral basis, the better.

In the meantime, private business and entrepreneurship has a responsibility to fulfil. New market opportunities are there to be seized, but at the same time business has to recognize that the name of the game now is competition, with less room for reliance on government hand-outs and protection from foreign suppliers. I have no reservations in saying that the great majority in the private sector welcome that news, but I am not naive enough to believe that it is necessarily a universally shared view. One needed to look no further than at some of the lobbyists who flew in to Geneva during the last few weeks of the Uruguay Round negotiations to realise that not everyone outside the room was cheering us on as the new trade agreements and market opening initiatives were gavelled through.

Before we declare victory over protectionism, therefore, and celebrate a re-invigorated and reinforced multilateral trading system we would do well to take stock and consider more closely the new international economic landscape that lies ahead. It is not without perils of its own. These could create real temptations to halt the process of liberalisation and possibly throw it into reverse.

The first point to note is that global market development implies also global economic restructuring. The importance of that process cannot be exaggerated. The Uruguay Round results alone will cause restructuring at a quickened pace in the industrialised world in particular. Releasing resources tied up at present in unproductive and uncompetitive activities and reducing the deadweight loss of economic inefficiency can bring immediate benefit to producers and consumers around the world, not least in North America and Europe. Yet equally, there are probably no regions in the world that will face such a challenge in carrying through the adjustments that are involved.

My reason for saying this lies in the second point, which is that although the old post-war economic boundaries are being pushed relentlessly outwards with the enlargement of the market-based economic system, membership of the system has already become far less homogeneous than it used to be. It is opening up to global supplies of productive resources, most particularly of skilled labour. Western Europe has faced similar challenges in the past at the regional level, both through successive processes of enlargement of the European Community and through creation of the Single Market, when countries that superficially at least priced their resource endowments as differently as, say, Portugal and Germany were nevertheless successfully brought under unified market conditions. In North America, a similar process has begun with the establishment of the NAFTA. The prospect of global economic integration and restructuring, however, implies adjustment on a scale unlike that ever encountered before and unlike anything that can be envisaged in a regional context.

The danger of this overloading the industrialised world's economic and political circuits is all too apparent, and needs to be dealt with firmly at an early stage. With already unacceptably high levels of unemployment, appeals to keep cheaper foreign products off the supermarket shelves and make the taxpayer help exporters compete in order to raise living standards and save jobs may sound like a seductively easy way out. The appeal is that of the snake-oil salesman; it is entirely illusory. Resisting adjustment on the grounds of discredited theories of the threat of "pauper labour" will impoverish our societies all the faster, not lay the grounds for rejuvenation of our economies and the creation of well-paid new jobs. Its moral repugnance as a theory is self-evident. What is needed at home more than anything else, to make high living standards available broadly throughout society, is steady, non-inflationary real economic growth. That will come from improving productivity and competing openly and vigorously for a larger share of the global marketplace. We can no longer

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afford to define our problems in a uniquely North American or Western European context, nor will we find the solutions there.

III

The heterogeneity of the newcomers to the global market economy is creating pressure to resist their integration for numerous reasons. Differing approaches to policy in areas such as environmental protection or social welfare are proving to be a touchstone for claims that these countries wield unfair trade advantages in the global marketplace, and that these must be met through trade restrictions if domestic industry is to survive and domestic standards are not to be dragged downwards. Simplistic demands for drastic trade remedies against so-called eco-dumping or social-dumping sometimes bear a striking similarity to more conventional forms of protectionist rhetoric, but in many respects ill-thought out measures can be more dangerous because of the popular emotional appeal that they appear able to carry with them.

It is important to stand well back from the emotion in order to draw up constructive policy prescriptions. The growth of world trade and the increased prosperity it generates has confirmed the validity of the economic principle that the welfare of trading nations will increase if each plays to its specific area of comparative advantage. There may well be good reasons for pursuing in specific cases the harmonisation of standards internationally, in which case the need for a cooperative, multilateral approach is obvious, but there is no general case to be made that heterogeneity is in and of itself a bad thing.

That proposition may not be accepted readily by those who believe, generally from a privileged vantage point, that free trade will lead to competitive deregulation and the lowering of standards worldwide to the lowest common denominator, or to industries migrating to developing countries or regions. Hence the link that is made to the use of trade restrictions -- these can be used, so the argument goes, to encourage countries to harmonise their standards upwards and to penalise those which are felt to be lagging behind.

The dangers of protectionist capture inherent in this line of argument are manifold. Above all, it leads to a false policy prescription which in all likelihood will not achieve the underlying objective. The direct effect of imposing trade restrictions against exports from a developing country or industry which is unable to meet industrialized country standards, for example, will fall first and foremost on the workers themselves, threatening their jobs and their livelihood. Where poverty is the principal cause of inability to invest in higher standards, which is very often the case, resource transfers to help raise the standards are called for, not trade restrictions in overseas markets that will cut away even further at the local resource base.

Without doubt, the threat of trade restrictions can be a powerful political club to wield around the global marketplace. Yet like all clubs it is available most readily to the powerful for use on the weak, not the other way round. Such politicisation of trade policy-making turns it into the equivalent of breaking off diplomatic relations or suspending aircraft landing rights. It has had no place until now in the framework for multilateral economic cooperation maintained by the GATT, and introducing it into the new framework of the WTO would place the system at immediate risk of collapse.

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My warning against the misuse of trade restrictions as politically motivated sanctions is based on my very deep belief that temptations to take the law into one's own hands and mete out justice unilaterally apart from being morally defective also reflects a failure at a practical level to avail of more effective avenues to achieve results through sustained efforts at multilateral cooperation. The Uruguay Round was a triumph for the process of multilateral cooperation, and it should boost the prospects for success of similar efforts in other areas. For example, there is an increasing awareness among developing countries of need to improve the climate for internationally mobile investment from private sector sources. This could well be a particularly appropriate area in which to begin to develop a new understanding subject to GATT/WTO disciplines. What better way to tackle the absence of resources that is at the root of weaker standards and at the same time provide a sustainable means to raise the standards concerned. What it comes down to in the end is two simple propositions: choose the most efficient and effective policy instruments for the task at hand, and coordinate them throughout the multilateral community within a framework of clear rules and disciplines.

I fully recognize that simple though the propositions may be to say, they are by no means so simple to put into practice. That is proving still to be the case even among the exclusive group of like-minded countries to which I referred at the beginning of my speech. It is certainly not made any easier now that the exclusivity has gone, and heterogeneity rather than homogeneity is a prevailing feature of the global economy.

That is why I proposed some weeks ago in Davos the need for a new structure of multilateral cooperation -- one which can deal, in a practical sense, with global economic issues and give further direction to the global economic institutions. Above all, those structures must involve the developing as well as the developed economies; we can no longer continue with a majority of the world's people excluded from participation in global economic management.

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