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# PEACE AND PROSPERITY THROUGH WORLD TRADE

Achieving the 2019 Vision

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*The world business organization*

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# *Foreword*

PETER D. SUTHERLAND

This thought-provoking collection of essays, looking at the prospects and challenges for the next decade, could hardly be more timely. As 2009 drew to a close, the scale of the collapse in world trade in that year was alarming.

It is rare for the value of global trade to decline at all. Yet in the first half of 2009, it was a third lower than in the same period the previous year. There has been nothing like this since the Great Depression of the 1930s, when the downward spiral of trade contributed to the political instability of that decade.

Historical parallels are not exact, and there are features of the modern global economy which help explain the sensitivity of international trade to recession. However, it is important not to forget the inevitable links between what happens in the economic and political spheres. This is after all what motivates the mission of the ICC to act as the 'merchant of peace through world trade'.

There are two characteristics of the world economy of today which have made the recent collapse in trade flows so severe.

The first is the way supply chains in many sectors now operate across national borders. Not only high-technology products such as mobile phones but even shoes and clothing are manufactured in a global network. The consequent trade in intermediate goods used to make final products means that a drop in consumer demand translates into a much bigger decline in world trade flows compared with the past.

The second feature is the increased synchronization of major economies, compared with previous recessions. The decline in trade in each country has amplified the declines elsewhere.

These features do mean that trade should bounce back quickly once the economic recovery is under way. But this is not something to be complacent about. A resumption of healthy trade growth, with

its beneficial impact on growth, jobs and incomes, is at risk from protectionism.

This is where the interplay with politics is likely to be decisive. On the one hand, the extensive interconnectedness of the world economy makes it unlikely that there will be anything like a repetition of the catastrophe of the 1930s. It is hard to believe that even the most populist government would want to destroy the supply chains which have helped their own businesses become more productive and given consumers everywhere wider choice and lower prices.

On the other hand, the severity of the recession resulting from the financial crisis has tempted many governments to announce measures which are either directly protectionist or indirectly so. From the 'Buy American' provisions in the US fiscal stimulus package to the tariff increases implemented or announced by several countries, these have taken a range of shapes. Unfortunately, the effects are the same. The growing number of measures – especially those introduced by major trading countries such as the USA – will make it harder for trade volumes to recover quickly.

So there is a clear challenge of political leadership in the next decade. It is vital for politicians and business executives alike to avoid the illusory attractions of flag-waving, which only ever delivers short-term benefits to a minority of firms and workers.

There is also a challenge for business leadership. One of the consequences of the financial crisis and recession is widespread scepticism about the benefits of markets and globalization. The fact that much of what has been said and written in this vein is either exaggerated or plain incoherent is no excuse for ignoring the need to ensure that the benefits of trade are widely shared. Business leaders must engage in trying to find growth paths which are sustainable – environmentally, politically and socially. This debate began well before the recent crisis, and many businesses have been actively engaged in it; but the need to tackle the difficult issues it raises is acute.

All of these subjects, from the global balance of economic power to appropriate governance structures for world trade, from environmental sustainability to social inclusivity, are addressed in the contributions in this volume. The contributors offer stimulating and sometimes provocative views about what the next decade will bring. As we move towards the hundredth anniversary of the ICC in 2019,

we should remember that business is one of the most influential forces for change in the world, a responsibility to be taken more seriously than ever in the light of the recent challenges.

## *Preface: the ICC vision*

VICTOR FUNG

In 1919, in the wake of World War I, a group of business leaders from Belgium, Italy, France, the UK and the USA, met in Atlantic City, New Jersey, to found the International Chamber of Commerce (ICC). They identified themselves as ‘merchants of peace’ and adopted the motto ‘world peace through world trade’. The following year, under the aegis of the French statesman and entrepreneur Etienne Clémentel, the ICC established its headquarters in Paris, where it has remained ever since. The ICC mission from its inception was to champion an open global economy as a force for economic growth, job creation and prosperity. These three elements, reasonably distributed, are the fundamental ingredients for peace.

In the tenth year of the ICC, in 1929, the Great Depression occurred and in the twentieth year, 1939, World War II broke out. In the intervening decade the global economy contracted dramatically as countries engaged in trade wars and unemployment soared. Though the causes of World War II are obviously multiple and complex, there can be no doubt that the breakdown of trade and the surging protectionism that ensued were important causal factors.

On the thirtieth anniversary of the ICC, in 1949, the world economy seemed to be back on track. Following the first round in Geneva in 1947 that formally established the GATT (General Agreement for Tariffs and Trade), a second round was launched in the French city of Annecy, which proceeded to expand membership and reduce tariffs. The ICC vision was re-enforced by the establishment of a rules-based multilateral trading regime, to which it has remained completely committed throughout the ensuing decades.

One of the most remarkable achievements of the post World War II world has been the exponential increase in trade. This not only brought great prosperity to the ‘familiar’ actors in world trade – North America, Western Europe, Japan, Australia and New Zealand – but also in the course of the 1970s there emerged the ‘newly industrializing-economies’

(Hong Kong, Korea, Singapore and Taiwan), whose industrialization was driven considerably by trade.

These forty years witnessed numerous violations of key GATT principles – mainly that of non-discrimination – and the application of new forms of protectionism. For example, in the mid/late 1980s the USA and the EU imposed on Japan ‘voluntary export restraints’ (VERs) in various sectors including automobiles and semiconductors.

Fundamentally, however, the system worked and many parts of the world that included GATT members prospered.

In 1989, the seventieth anniversary of the ICC, the destruction of the Berlin Wall heralded the emergence of an open global market economy that seemed indeed to correspond perfectly to the ICC founding vision of ‘world peace through world trade’. The Cold War ended and markets opened virtually everywhere. With the conclusion of the Uruguay Round in 1994 the World Trade Organization (WTO) was formally established on 1 January 1995. In the ensuing decade-and-a-half, the membership of the WTO has expanded enormously, notably with the accession of China in 2001, with the result that today only a very small minority of countries are neither members nor countries seeking accession. On that basis the World Trade Organization is truly the *World Trade Organization*. Furthermore, in addition to the traditional GATT negotiating function, the WTO has a Dispute Settlement Unit that has significantly increased its aura and its clout as not only a rules-making body, but also a rules-enforcing body. In the course of the decade 1989 to 1999 it seemed as though globalization had embarked on an ‘irreversible’ course.

### **1999–2009: a decade of high growth and lost opportunities**

In the ninetieth year of the founding of ICC, 2009, talk of globalization being ‘irreversible’ had ceased, while the term ‘de-globalization’ increasingly became current in describing possible future scenarios.

In fact, it has been a paradoxical period. On the one hand, until the global recession of 2008–2009, the world economy and especially world trade experienced exponential growth, while the membership of the WTO continued to increase, with new members such as not only China, but also Vietnam, Saudi Arabia and Ukraine. On the other hand, the world trade policy process and agenda have badly stalled. The attempt to launch a new Round in Seattle in 1999 ended in an

unqualified fiasco. A Round was launched in Doha two years later, in December 2001, though the impetus for this came mainly from the initial aftershocks of the 9/11 cataclysm. At the following WTO ministerial meeting, in Cancún in 2003, it was clear that there were deep entrenched problems of multilateral trade policy immobilism.

It is not the purpose here to analyse the causes for the paralysis in the Doha Round talks that have seen several years of procrastination and repeated breakdowns. There are clearly, however, four major elements that are actively playing an influentially negative role.

The first is that this period has witnessed unprecedented change in the nature and structure of the global economy. The major dynamic has been the tremendous surge of the emerging economies in the global market. There has been a clear problem on the part especially of the established global powers – the EU, USA and Japan – to adjust to this new world; but problems of adjustments also apply to some of the major emerging economies.

The second is that the problem of adjustment has been compounded by an absence of vision and direction on the part of the political leaders. It has been repeatedly and rightly said that the Doha Round is unlikely to be concluded without political leadership. With the last WTO ministerial meeting (at the time of writing) having been held in Geneva in November 2009, it is clear that political leadership remains conspicuous by its absence.

The third is that there is an element of institutional sclerosis. The WTO is badly in need of reform, especially with respect to the decision-making process. There would appear, however, to be a Catch-22 situation in that without reform the WTO Doha Round may be impeded from reaching conclusion, yet conclusion of the Doha Round may be needed to bring about reform.

The fourth is the most fundamental and the most elusive. What is notably lacking in the international community today is trust. It was repeatedly said that if the global community could not cooperate on the trade agenda – which is relatively straightforward – it seemed improbable that it would succeed in cooperating on far more complex challenges, notably climate change. The outcome of the Copenhagen Climate Change Conference in December 2009 has unfortunately proved this assumption to be correct.

The decade that seemed to be marked by unprecedented growth and optimism came to an end with the worst economic crisis the

world has seen since the 1930s. Instead of creating wealth, the decade ended with its significant destruction.

From the trade perspective, while it is highly disappointing that the trade policy agenda remains mired in paralysis, the great relief is surely the fact that contrary to justified apprehensions the world did not fall into the 1930s trap of an outbreak of protectionism and trade wars. The very existence of the WTO must account in a significant way for the absence of this negative outcome – for the fact that the protectionist dog did not bark.

### **Going forward to 2019 – the ICC's hundredth anniversary**

If the Great Recession of 2008–2009 failed to result in trade wars and surges of protectionism, it would be prematurely dangerous to claim victory and especially to fall into a complacency trap. The world trade system enters the second decade of the twenty-first century in a turbulent and fragile state. Protestations from global government leaders to the contrary notwithstanding, there are good reasons to suspect that 2010 will not see the conclusion of the Doha Round. Trade tensions between China and the USA are pretty much bound to intensify. It is of course in the interests of both nations and of the global trading system generally that these tensions should be contained and indeed resolved. The absence of a strong multilateral framework, indeed the weakness of the WTO, in that context, as in many others, must be matters of concern.

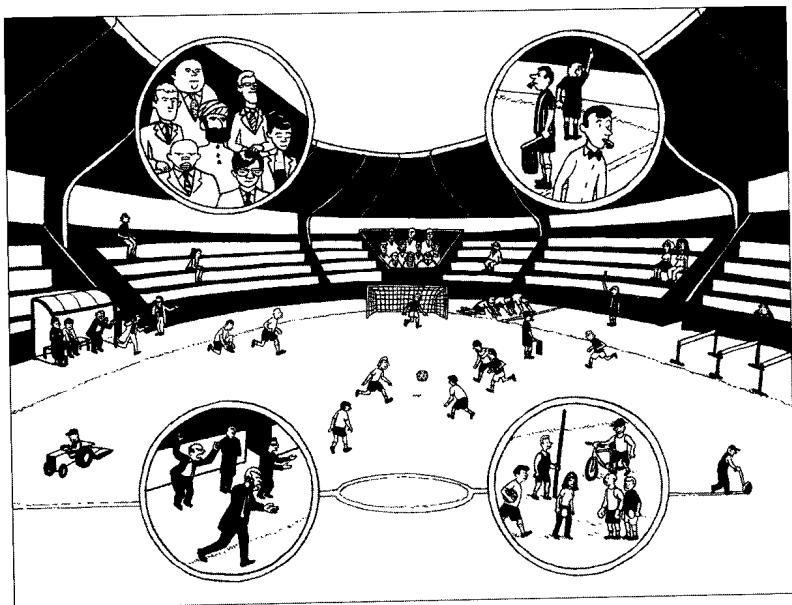
The multilateral trading system is further undermined by the growth, proliferation and intensification of PTAs (preferential trade agreements). As the multilateral system appears bogged down, nations and indeed whole regions have moved to substitute it with a plethora of bilateral trade arrangements. Initially it was hoped by some policy makers that this would have the effect of bringing about 'competitive liberalization' and thus provide ultimately momentum to the multilateral agenda. This assumption has proved woefully wrong.

The ICC vision remains constant in seeking to bring about economic growth, job creation, prosperity, and hence peace, through an open global market economy based on a multilateral trading regime. This was the vision in 1919 and it is the hope that it will reflect global reality when the ICC celebrates its hundredth anniversary in 2019. In addition the ICC vision has come to encompass the other

key issue of the twenty-first century, the climate change agenda. A robust rules-based open global trading system will definitely be a critical constructive force in ensuring greater global sustainability.

To achieve this vision, the global agenda for the next decade must address the four impediments I noted above. First, economies, both industrialized and emerging, must adjust to the new realities of the twenty-first century world economy. Second, political leadership and political will must be brought to bear on the trading agenda. Third, there is an imperative of institutional reform in the WTO to make the process more responsive to current transformations and challenges. Fourth, we need to restore trust.

It is a very challenging agenda. But what are the alternatives? In achieving this vision and meeting this challenging agenda for the next decade, the business community, through the ICC, must play an active and constructive role.



## *Historical overview and dynamics*

JEAN-PIERRE LEHMANN

To Europeans the dawn of the twentieth century was seen as a period of great progress and great prospect; as the ‘golden age’ of globalization. The mood is captured in the famous phrase by Sir Norman Angell in his best-selling book, *The Great Illusion*, published in 1910: ‘international finance is now so interdependent and tied to trade and industry, that political and military power can in reality do nothing’.

The great illusion was shattered four years later as Europe and the world entered a protracted period of seemingly endemic wars and revolutions that lasted well into the twentieth century, finally coming to an end with the destruction of the Berlin Wall and the subsequent collapse of the Soviet Empire.

By the beginning of the twenty-first century Europe achieved a level of peace and prosperity that could have been dreamed of in 1900, but would have appeared totally unfathomable a decade-and-a-half later and for the ensuing decades. Imagine being told in 1975, for example, that in thirty years Estonia would be a member of the European Community. Unimaginable!

Yet it did come to pass that by the end of the turbulent twentieth century, the vision of the founders of the International Chamber of Commerce (ICC), ‘world peace through world trade’, had finally been translated into reality for Europe. For the rest of the world, though prospects are encouraging, the jury of history remains out.

While perspectives in Europe at the dawn of the twentieth century may have been brimming with enthusiastic self-confidence, it has to be said that perspectives from China – and indeed most parts of the non-European world – were rather different. In 1900 China was in the throes of a major upheaval – known as the Boxer Uprising – which involved both civil strife and foreign invasion. This conformed to a pattern set some six decades earlier with the outbreak of the first of two Opium Wars and that was sustained until the middle of the twentieth century.