

The Maison Dorée Meetings

GLOBALISATION AND PROTECTIONISM

Summary of the meeting of February 12, 2008

- 'Théâtre des Variétés' -

LIST OF SPEAKERS

Introduction

Mr Baudouin PROT
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Lecture by:

Mr Pascal LAMY
Director General of the WTO

INTRODUCTION BY MR BAUDOIN PROT

Who better than Pascal LAMY, in charge of the WTO, to shed some light on the chosen theme of ‘globalisation and protectionism’, a central issue that is currently at the very heart of the economic debate? Globalisation is often “waved like a red flag”, and it is easy, too easy in fact, to make it the scapegoat for all every single problem that arises. Given the fact that we are currently seeing an economic slowdown, protectionist pressures are increasing on all fronts, and attention needs to be drawn to the dangers of this. These risks are well known, of course, especially the risk of a whole series of retaliation measures being implemented in the form of a domino effect, and this would inevitably have the same consequences as those observed in the Thirties. But history shows that, in spite of everything, it is important to highlight these dangers and the perversity of the “chain reaction” caused by protectionism. The election campaign, which has begun in the United States, will undoubtedly stimulate the level of isolationist rhetoric. The significant differences between China and the European Union countries, in terms of both the environment and working conditions, are often used as an example when denouncing free-trade. There are undoubtedly some practices that could be improved, but to what extent can *fair-trade* ruin *free-trade*? And what of the rising number of bi-lateral agreements? Are they in line with the concept of multi-lateralism, as promoted by the WTO? And what of the impact of the world’s trade imbalances on exchange parities? And finally, what of the rise in the level of the sovereign wealth funds? All these questions will be looked at by Mr Pascal LAMY...

LECTURE BY MR PASCAL LAMY

Globalisation and protectionism. This theme is the subject of analysis, controversy and political debate all over the globe. It causes the most animated discussions, whether in the headquarters of the Chinese Communist Party, the US Congress, the Indian Parliament or indeed the European Parliament, and generally, in similar terms. To get a clearer picture, therefore, we need to look at the issue from two different angles, i.e. the economic angle and the political angle, in other words the crux of the WTO’s activities.

The economic approach: globalisation can do no wrong.

The economists’ approach is well known. In a capitalist market system that has now become global, the Schumpeterian model of destructive creation and creative destruction generates a higher level of well-being. The driving force behind this system is technological development and ever-increasing levels of innovation. The international division of labour produces efficiency, and efficiency generates growth, which in turn leads to development. Development subsequently leads to a reduction in poverty levels. And the transmission belt for this increase in innovation and technical progress is called international trade. The less obstacles to international trade, the better the global situation. The protectionist temptation is nothing more than a new metamorphosis of old doctrines, which are now totally out of date.

Economists do acknowledge that the Schumpeterian model does not solely produce winners. They assert, however, that it produces more winners than losers. For these economists, the question of the losers is a subsidiary issue, and it is up to the politicians to look after them by implementing the necessary arbitration between efficiency and solidarity. This approach, although perhaps over-summarised, is the one adopted by the majority of economists today. It is also an approach that is validated by economic history and statistics. The economists

underline the fact (and correctly so), that open systems have delivered better performances over the last 50 years than closed systems. They nevertheless acknowledge that social welfare and society-based issues must be taken into account when considering the concept of open trade. With this in mind, the agreements that govern international trade (i.e. those of the GATT and today the WTO), specify that, in certain cases, other objectives linked to the expression of society-based preferences, can prevail over the freedom of trade.

The political approach: public opinion and its concerns.

The approach adopted by the politicians is significantly different. They are only very marginally interested in the technical aspects of the economy, yet they monitor the polls very closely. These polls show that people are afraid of globalisation and that a large majority consider that there will be a price to pay for international trade. The same polls show that the more highly developed the country, the greater the fears of its inhabitants. The general public, in both Europe and the United States, is convinced that globalisation represents a threat, and could be the downfall of employees' rights, social rights, or even the specific identity of their own nation. The "politicians" deduce that these polls reflect a demand for protection, which it is their job to provide. We all know that there is only a small step between protection and protectionism. Numerous restrictive recommendations are consequently coming to the fore, such as social, environmental or monetary dumping. These concerns originate from the asymmetrical world of those that implement commercial policies and those that have to explain them to the public. A political zone is full of noise. In the public world of international trade, however, the winners are silent, and generally unaware of the positive impact that the international division of labour has on their wallet. The losers are noisy. This political reality is reinforced by two fundamental "anthropological/political" dimensions. In all human societies, the authorities exchange protection for loyalty. This is the fundamental principle of legitimacy according to the old, or even tribal, sense of the term. In these circumstances, it is very much in the interests of the authorities (or candidates for positions of power) to accentuate the threat in order to attribute greater importance to the protection that they will be providing. To achieve this, the authorities have an ideal scapegoat, i.e. foreign countries.

The identity argument is politically the easiest to mobilise.

The solutions to these contradictions/questions can be found at both a national level (which remains the most relevant level with regard to democratic legitimacy) and at an international level, to the extent at least that one is able to resolve the essential question of legitimacy.

Solutions at a national level.

At a national level (and European level in the case of France), it is a case of acting with regard to the political line adopted. This means no more giving way to anxiety-mongering temptations (i.e. maintaining and boosting a state of anxiety so as to highlight one's protection capabilities). This is a major political problem within the European Union and, to a certain extent, in the United States. It is necessary, now more than ever, to re-construct a positive vision of the future in order to mobilise the players involved and implement the necessary reforms.

National entities have a whole array of public policies for handling turbulence, or problems with the economic and social fabric provoked by international trade. The approach adopted

must, however, focus on the link between the policies revolving around competitiveness and those that concern social solidarity. The national policies hold the key to solving most of the problems created by a more efficient division of labour.

Solutions at an international level.

Globalisation must be controlled. The international system must be both adapted and mobilised to this effect. This is again an essentially political issue. Protectionist feelings result from a loss of bearings or control over events, and this is a fundamental danger for democracies. A democracy is underpinned by institutions and a subtle balance (which sometimes need revising) between the executive, legislative, judiciary, public authorities and citizens' rights. But this is not the most important aspect. A democracy principally relies on the confidence entrusted to the politicians by each individual citizen, via his vote. Globalisation can, in certain cases, sustain the idea that the ballot has become ineffective. Such a feeling opens the doors to other means of resolving violent conflicts. In this context, the question of the international system's capacity to take responsibility for part of the national solution becomes fundamental for the future of democracy. The task is not an easy one, however, if only because there are significant obstacles, i.e. primarily efficiency but also legitimacy.

The efficiency and legitimacy of the international organisations.

As far as efficiency is concerned, one has to admit that the Westphalian system of governance struggles to generate consistency. As a reminder, the treaty of Westphalia (1648), which marked the end of the Thirty Years War, signalled the arrival of the sovereign "Nation State", which became the alpha and omega of the international system. This system consists of autonomous molecules, i.e. the Nation States, which can, on the basis of their own free will, sign alliance treaties, cancel them and overturn them. In the international system, nothing prevails over the full sovereignty of the Nation State. As a result, international issues are often entrusted to specialist organisations (ILO, IMF, the World Bank, WTO etc...). Whilst this system can be efficient (especially in sectorial terms), it is only marginally successful in implementing one of the fundamental issues of consistency that a system of governance is supposed to support. In other words, consistency is only a very minor issue for these organisations and their executives, and is only supported by the states that originally decided to form these organisations. In fact, this system is only consistent when the state members of the institutions adopt the same level of coherence. Unfortunately, this is not always the case, notably because the sovereignty of the Nation State authorises the members (states) of the organisations to neglect the consistency aspect, without any transparency required or penalty sanctions implemented. One also has to question the legitimacy of these organisations, notably with regard to the composition of their executive bodies, which were often originally formed on the basis of conflicts that are often now obsolete. The new players in the international system consider, with reason, that the type of conflicts required in the past no longer reflect today's environment. Given this context, the WTO is a special case, as the organisation has the advantage of being underpinned by a "pliable" institutional structure and is consequently easily adjusted. More important still is the question of legitimacy in the face of public opinion. Legitimacy in political terms is inversely exponential to the gap that exists between the power and the people. Today the monopoly for expressing democratic legitimacy is restricted to the traditional framework of the Nation State. These difficulties can be overcome, nevertheless, this will only be possible if inroads (theoretical or ideological) are made into the sovereignty of the Nation State, and that the principle of world public goods is

accepted. It is, therefore, necessary to initiate discussions on the collective values that could be used to found such a system and to define a platform of common rules for it. It is, however, particularly complex to bring these values to the negotiating table. Perhaps what is required once again, in order to negotiate or juxtapose these values, is a sense of solidarity, which today is severely lacking.

The question of protectionism and its relationship with globalisation goes beyond the problem of commercial issues. The necessary interfaces between different cultures and value systems are becoming fundamental parameters of international trade. That said, the Europeans have been attempting to implement a “post-Westphalian” experiment for over 50 years now, as they consider that the sovereignty principle of the Nation State has become obsolete. This has been successful in terms of efficiency, but the question of legitimacy still remains. Numerous world executives are paying close attention to what is happening in the European laboratory, so to a certain extent it represents a trial run. Whatever the outcome, the solutions that emerge will be of a political nature.

DISCUSSIONS WITH THE AUDIENCE

Is the DOHA Development Agenda worthy of its name? Should the WTO be responsible for projects assigned to other organisations, whether in terms of health or labour law? Should the organisation not be re-focusing more on trade itself?

The DOHA Development Agenda is indeed worthy of its name. One nevertheless has to acknowledge that this doesn't always facilitate negotiations. The WTO organisation is in fact better placed to represent and translate today's “geo-economy” and “geopolitical situation” into new rules. It is not by chance that India, China, Egypt and Brazil (to name but just a few) have integrated the WTO to show that the old rules (which were brought about by a system in which they did not even enjoy a secondary status) must be modified. It is no coincidence, say these countries, that northern states are increasing the number of subsidies granted to the somewhat un-competitive agricultural sector (significantly less competitive than that of many ‘developing’ countries). Neither it is a coincidence, they say, that the agricultural customs duties are particularly high in the countries responsible for implementing the old system. These countries have a very good point. The international trade regulations reflect the conflicts that have taken place over the international negotiating tables, and one has to acknowledge that in this area, economic de-colonisation has fallen behind political de-colonisation. Mr Pascal LAMY is convinced that the opening up of international trade is an essential condition for development. The result is that it is now, more than ever, necessary to facilitate the insertion of developing countries into the international trade system. But the international trade regulations still need to fairly reflect the new conflicts. That said, issues concerning health and labour law remain in the hands of the same members of the aforementioned international organisations.

Do world risks (i.e. pandemics and terrorism) currently represent the biggest obstacles to the globalisation of trade?

The interdependence of the different economies considerably increases the number of risks, and notably the problem of these risks spreading on a worldwide scale. These risks – whether financial, health, terrorist or climate-change related – are perceived as negative by public opinion and can lead to protectionist tendencies. It should be noted that the reactions are often inflated by the media, but having said that globalisation would not be what it is today if the

media themselves were not global. Nevertheless, the only possible solution today is the collective management of these risks. Negotiations are especially difficult within the WTO, given that it encompasses 152 “Westphalian” countries. It is nonetheless difficult to convince a Parliament that is very attentive to public opinion of the validity of open trade. All the statisticians agree that the probability of reaching an agreement in a “Westphalian” system is almost nil. Fortunately, the people that are involved in the negotiations often demonstrate a fair degree of common sense.

Does the concept of collective preferences, a principle promoted by Pascal LAMY when he was European Commissioner, not open the door to protectionism?

Pascal LAMY has never used this term within the WTO. He examined the issue in a former life, when it was his job to promote the interests of the European Union in the world of international trade. It had seemed to him at the time that the EU’s commercial policy revolved around a certain number of specific values (which were not shared by the United States, China or India) and that it was a good idea, in order to legitimise this policy, to be more explicit with regard to the concept of collective preferences. Pascal LAMY no longer adopts the same positioning, given his functions within the WTO. He considers that it is a European positioning and that it doesn’t have the approval of the other members of the WTO. However, the obstacles hindering international trade are changing and making the negotiating terms more complex. Risk is a subjective concept, like a dream or a nightmare. It is possible to agree on regulations for subsidies or the level of customs’ duties. It is much more difficult, however, to agree on the rules concerning Genetically Modified Organisms.

The risk dynamics are partly linked to the increasing complexity of the situation. Are these dynamics also linked to the global economy?

Protectionist tendencies (and the political temptations that they engender) are more pronounced during periods of economic slowdown or crisis. The world has enjoyed several years of growth, particularly in the United States and in certain developing countries. The economic context is likely to deteriorate, especially if part of the American financial crisis spreads to the rest of the world. This represents further justification for an agreement on the negotiations currently underway at the WTO. Pascal LAMY is optimistic, and considers that, thanks to the lessons learnt from history, countries are reacting in a more positive way than before.

What is the impact of the development of the bi-lateral agreements? Are these agreements contributing to the general dynamics?

The question of the relationship between bi-lateral agreements and multi-lateral agreements is a bridge of asses for the theory of international trade. Having said that, the impact of the bilateral agreements depends on their quality. Pascal LAMY stresses the importance of the rule according to which multi-lateral agreements must prevail over bi-lateral agreements, and that the contents of these bi-lateral agreements are defined by multi-lateral regulations. Bi-lateral agreements often produce better results in terms of political communication. Nevertheless, their proliferation is not without risk. The solution consists, therefore, of ensuring that multi-lateral agreements prevail over bi-lateral agreements in an organised and verified fashion.

How would you compare the influence that you enjoyed in your capacity as European Commissioner with your role today within the WTO?

The transition made by the European institutional spaceship into the Westphalian world turned out to be a very bumpy ride. Pascal LAMY began his career in a “hard system” (i.e. the French model), and then moved into a system that he qualified as “liquid” (i.e. the European system). He is today involved in the Westphalian system, which he qualifies as “gaseous”. By moving from Brussels to Geneva, he has moved from a clear and standardised system where the European Commissioner had total control over any commercial policy initiatives, to a more complex system where he has to play several roles, i.e. that of an orchestrator, confessor, mid-wife and shepherd’s dog. His executive authority is not defined anywhere. The Director of the WTO only has the authority that is bestowed upon him, and there is no constitutional base on which to establish a level of executive authority with defined contours and contents. Pascal LAMY has nevertheless learnt to operate within this system.

What additional measures could be taken by the WTO to help stabilise, over a long period, the international solutions or to find time to create economic and social redeployment zones linked to globalisation?

The WTO cannot in any way hinder the international division of labour. It can, nevertheless, ensure that non-commercial values are, when necessary, over-imposed onto the capitalist framework. When such requirements are health or environmentally related, therefore, the WTO charter stresses that States have the right to block trade in order to protect the health and environment of their citizens.

Can the WTO system be improved from a democratic point of view? In the Westphalian system, decisions are not subject to any democratic validation process, which partly explains the difficulties encountered by politicians in explaining the validity of the agreements.

This is a fundamental issue. Pascal LAMY has, moreover, written a book on this subject, “La Démocratie Monde” (world democracy), in which he defended the implementing of an “alter-national” democracy. The Nation State today remains the predominant legitimization zone in terms of democracy. Whilst the European institutions obey the rules of parliamentary democracy, the European Union has not been successful, in terms of legitimacy, in installing a feeling of belonging on the part of the citizens. The question of the WTO’s legitimacy therefore becomes even more relevant. But should one simply do nothing merely because it has not been possible to create a world Parliament? The answer is of course “no”. Especially as a large number of populations on the planet are heavily against a project of this type. There are nevertheless certain solutions. The introduction of procedures that require transparency is a major obstruction to the obscure aspect of Westphalian behaviour. The issues at stake must be evoked and debated in public. It is also necessary to ensure that executives of international organisations are selected via transparent electoral methods. Everyone knows that, in general, more executives are appointed via totally obscure procedures. Certain avenues can be monitored, notably during interactions with civil society. Certain NGO’s have been globalised and there are areas in which they influence the international agenda. Whatever the situation, certain democratic zones exist within the international organisations. These zones will not take the form that the Europeans have partly succeeded in replicating in their own political system.

Summary

The question of protectionism and its relationship with globalisation is discussed all over the planet. This issue is generally approached from two different angles, which are often conflicting. Economists agree on the fact that free trade generates greater well-being. Economic history suggests that they are correct. Over the last 50 years, open systems have delivered better performances than closed systems. Politicians, however, attribute more importance to the polls than the economy's technical functioning. These polls show that people are afraid of globalisation and that it is in fact perceived as a threat for a vast majority, notably in the rich countries. Given this context, it is in the interests of the political powers to accentuate the potential threat to its citizens in order to inflate the importance of the protection that it is able to provide. It is only a small step from protection to protectionism. How does one reconcile these two asymmetrical approaches? A certain number of solutions can be provided at a national level. It is indeed up to the politicians to adopt an optimistic line (which does not give into paranoiac temptations) and skilfully promote competitiveness and social solidarity policies. Solutions can also be provided by the international system, which must also endeavour to take partial responsibility for creating solutions at a national level.

There is nevertheless the question of the efficiency and legitimacy of the international organisms. These organisations are still underpinned by a Westphalian system based on the sovereignty of the Nation States. This system does not today guarantee the fundamental consistencies that an efficient system of governance is supposed to promote. As for the question of the legitimacy of the international organisations, it is regularly challenged by the new players within the international system, who consider that the conflicts that brought them about are no longer relevant. Not to mention the democratic legitimacy of these same organisations. Negotiations in the future will focus on value systems.

How can one encourage States to initiate negotiations on collective values in a world where a sense of solidarity is cruelly lacking?

The European Union can provide an initial response. The Europeans have indeed succeeded in implementing a "post-Westphalian" experiment, which has proved to be efficient (despite the fact that the legitimacy issue remains unanswered). Whatever the situation, the solutions adopted for the globalisation issue will be of a political nature.