

The Foreign Policy Centre



The European Think Tank with a Global Outlook

Free *and* Fair:

**Making the Progressive Case for
Removing Trade Barriers**

Edited by Phoebe Griffith and Jack Thurston

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About the Foreign Policy Centre

The Foreign Policy Centre is a leading European think tank launched under the patronage of the British Prime Minister Tony Blair to develop a vision of a fair and rule-based world order. Through our research, publications and events, we aim to develop innovative policy ideas which promote:

- Effective multilateral solutions to global problems
- Democratic and well-governed states as the foundation of order and development
- Partnerships with the private sector to deliver public goods
- Support for progressive policy through effective public diplomacy
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The Foreign Policy Centre has produced a range of **Publications** by key thinkers on world order, the role of non-state actors in policymaking, the future of Europe, international security and identity. These include *The Post-Modern State and the World Order* by Robert Cooper, *Network Europe* and *Public Diplomacy* by Mark Leonard, *NGOs Rights and Responsibilities* by Michael Edwards, *Trading Identities* by Wally Olins and *Third Generation Corporate Citizenship* by Simon Zadek.

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Disclaimer

The views in this paper are not necessarily those of the Foreign Policy Centre.

Abstract

Drawing on public opinion analysis from key countries (the US, France, Britain, Germany and India) this collection of essays seeks to analyse why trade continues to be such a politically sensitive issue. Leading public figures from across the political spectrum explore the interaction between public opinion and trade issues in an age when trade politics is no longer an issue that divides left and right. The collection includes essays that shine the spotlight on key issues like development, agriculture and offshoring. Several contributors examine the role which key non-state organisations – including NGOs, companies and trade unions and the WTO itself – play in shaping public attitudes to trade policy. The diverse set of authors share an optimism that it is only a *progressive* case for trade liberalisation, a case that recognises and addresses the possible downsides of free trade, that will command the widespread public support needed to deliver the benefits of open markets.

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Introduction: Making the Progressive Case for Removing Trade Barriers

Jack Thurston

The tides of free trade and protectionism have ebbed and flowed over the centuries but in the post-war period the direction has been firmly – if gradually – in the direction of more open world markets. The international trading system is one of the most successful global integration projects to have been achieved through multilateral frameworks. Investment and trade across borders are at historic highs and are one of the most important linkages defining a globalised world economy.¹

But trade policy is never far from controversy. Trade disputes between the US and Europe flare up at regular intervals, adding to a growing transatlantic rivalry. International instability, whether in the form of disease outbreaks such as bird flu and BSE/vCJD or new fears about terrorism, drugs and people-trafficking, has inevitably put new strains on the international trading system. North-South relations are also shaped by issues of trade (textiles, agriculture and TRIPS are just a few of the more intractable issues). Rising powers like India and Brazil have become more assertive players in the multilateral trading system. China joined the WTO in 2001, bringing with it one quarter of humanity.

Trade policy is at once highly technical and powerfully emotive. It is an area of international policy that has enormous domestic political reach. Traditional fears about trade-related job losses have been joined by new and popular critiques of globalisation and the role played by large corporations in global capitalism. In 1999 the WTO Ministerial Summit in Seattle saw these various strands of opposition join forces for the first time. The Doha Development Agenda was an

¹ I am grateful to Phoebe Griffith and Rob Blackhurst for comments on an earlier draft.

attempt by the member countries of the WTO to meet criticism through linking the current round of negotiations to United Nations development objectives, increasing the involvement of countries beyond the traditionally dominant Quad of the US, EU, Japan and Canada and promising real progress on the vexed issue of agricultural protectionism.

The purpose of the Foreign Policy Centre's work on trade, development and public opinion in 2004 has been to analyse how public attitudes interact with trade policy and to find ways of bringing the weight of public opinion behind a distinctively *progressive* case for the removal of trade barriers. In the opening chapter of the collection, **John Audley** of the German Marshall Fund of the United States (GMF) and International Political Advisor **Hans Anker**, present findings from their groundbreaking four-country survey of public opinion about trade and development conducted in June 2004 in France, Germany, the United Kingdom and United States. They argue that public opinion is sympathetic to those who want the current round of trade talks to deliver on the development objectives of the Doha Declaration. The essays that follow in Section Two elaborate on the findings of the GMF survey to draw some wider conclusions about public opinion on trade policy in each of the four countries surveyed plus India.

The first two essays of Section Three pick up on two of the hottest topics in current debates over trade policy: offshoring and agriculture. **Paul Morrison** explains how the offshore outsourcing of white-collar service jobs from developed economies to lower-cost developing countries like India and the Philippines is a relatively new phenomenon that has brought the implications of the new global division of labour into sharp relief. Compared to the relatively new issue of offshoring, agricultural protectionism is an old chestnut. **Paolo De Castro**, a leading Italian agricultural political economist and a former Italian farms minister, analyses the long-term evolution of the Common Agricultural Policy and the role of public opinion in the development of the European model of agricultural and rural policy.

Campaigning NGOs are highly influential in shaping and mediating public attitudes to trade policy. Their involvement in trade liberalisation is discussed in detail by **Peter Willetts**, a leading UK analyst of social movements. Public attitudes to the WTO come under the spotlight of brand consultant **Jasmine Montgomery**. She draws on the techniques of corporate brand management to give the WTO some advice about how it could improve how it is perceived by key stakeholders and the general public. **Brian Hindley** of the London School of Economics goes on to look at how economic arguments for free trade mesh with public attitudes and argues that despite some residual public sympathy for protectionism, the long-term direction is towards freer trade, reflecting the underlying economic benefits of open markets. He contends that the embedding of WTO dispute settlement mechanisms means Fred Bergsten's famous bicycle theory no longer holds and that Seattle and Cancun were mere setbacks: as long as the US and the EU continue to abide by WTO rules, the world trading system is not at risk of falling apart.

In the final section, three leaders in the complex firmament of trade policy set out their positions. **Hilary Benn MP**, the UK Secretary of State for International Development, believes that more can be done to mobilise public opinion in support of a development-focussed trade reform agenda that will benefit many of the world's poorest people. He argues that governments in developed countries too often are swayed by powerful vested interests such as the farm lobby and that a countervailing voice for the world's poor is needed. **Roger Lyons**, President of the UK Trades Union Congress, explains why fair trade and free trade should go hand-in-hand, focussing his attention on the issue of employment rights and international labour standards. **Herbert Oberhänsli** of Nestlé SA looks at the role of companies in trade policy and argues that too often it is short term thinking that stops corporate interests from aligning with consumers as powerful advocates for removing trade barriers.

In this introductory chapter, I pick up several themes from the collection as a whole and argue that:

- Despite an upsurge of high profile protests at WTO summits and public scepticism about certain aspects of trade liberalisation, overall public opinion can best be described as in favour of 'cautious liberalisation'.
- Fears about trade-related job losses are still the most important public opinion challenge for those seeking to remove trade barriers (more serious than the new environmental, labour standards and anti-globalisation critiques of trade liberalisation).
- A 'progressive' case for trade liberalisation that acknowledges and addresses possible downsides and places trade policy in the context of democratic global governance stands a better chance of winning public support than traditional arguments based on free market economic theory.
- Survey evidence shows that the pro-poor goals of the Doha Development Agenda command widespread public support. However, the influence of public opinion has yet to be fully brought to bear on the negotiations.
- Engaging public opinion remains a major opportunity for trade liberalisers seeking to take on the vested interests that support continued protectionism.

Trade policy: politics versus economics

Protectionism can be seen as the triumph of politics over economics. Just as it is hard to find an economist who does not support a liberal trade policy, it is rare to find a politician who will speak unequivocally in favour of open markets. A frustration with the apparent economic illiteracy exhibited by the political process is one of the reasons why economists and trade technocrats so often eschew the vagaries of the public arena, preferring to remain within the relative clarity and the objectivity of dry economic analysis. But as **Peter Willetts**

argues, this tendency has resulted in some of the WTO's most serious public image problems. He says that the WTO will continue to be regarded as a 'deviant' organisation (compared to the UN and the World Bank, for instance) until it improves its *transparency* and *openness*. **Erika Mann MEP** makes a similar argument, calling on the WTO to involve national parliamentarians in its processes as a way of bringing the debate on trade policy closer to the public and increasing the legitimacy of WTO-brokered trade rules. On the other hand, **Jasmine Montgomery** argues in her 'brand makeover' that the WTO needs to do more to remind people what it does and – more importantly – what it is not responsible for. Strong brands, she reminds us, focus on what they can do well, their core capacities and abilities. Even after the debacle of Seattle, the WTO and those who believe in rules-based multilateral trade liberalisation have been slow in recognising the need to be more proactive in engaging in the wider public debate over trade and globalisation. This is not wholly the fault of the WTO itself. As **Jasmine Montgomery** notes, national governments find it a convenient strategy to let the WTO take the heat for contentious trade policies while claiming the credit for themselves when things go well.

Trade is among the oldest of a growing set of 'intermestic' issues that bridge international and domestic politics (others include security, investment, drug trafficking and migration) and the politics of trade policy are consequently multidimensional. Building a winning case for removing trade barriers requires taking into account several key features of the distinctive politics of trade policy.

1. While the costs of liberalisation are outweighed by the benefits, the costs tend to be concentrated among a relatively small, defined set of individuals and the benefits are spread widely and into the future. Taking US sugar subsidies as an example, around half of all the benefits are shared among just 17 large agribusinesses. It has been estimated that each one of the 2,300 jobs in the American sugar industry that were preserved by barriers to imports cost

around \$600,000 per year.² But the \$2 billion annual costs of sugar subsidies are barely noticed by individual consumers (they amount to less than 2 cents a day) or are borne by people in the developing world. The result is that, as Secretary of State for International Development **Hilary Benn MP** admits in his essay, “too often the trade negotiators hear the voices of the agribusiness lobbies more loudly than others”. Dispersed benefits/concentrated costs is just one dimension of the politics of trade liberalisation. A further consideration is the ‘negativity bias’ that means politicians are driven more by the fear of punishment by those who lose out from a policy decision than they are motivated by the rewards from those who stand to gain.

2. Although economic theory (and empirical analysis) tells us that trade liberalisation provides sufficient gains for the winners to compensate the losers, in practice such compensation rarely takes place. The political and technical difficulty of making such transfers means that trade liberalisation involves significant transfers between individuals and so can be expected to be politically contentious.

3. National governments continue to approach trade negotiations with a mercantilist mindset. In the eighteenth century David Hume described ‘the jealousy of trade’:

“Nothing is more usual, among states which have made some advances in commerce, than to look on the progress of their neighbours to consider all trading states as rivals, and to suppose that it is impossible for them to flourish, but at their expense.”

This idea of the zero-sum game is still at the heart of the politics of trade policy, as **Daniel Drezner** laments in his dissection of the United States’ debate on free trade.

While trade policy is rarely a core issue of political debate, it often rises to prominence during election campaigns (the 2004 US

² Hufbauer, Gary C. and Elliot, Kimberly A. (1994): “Measuring the Costs of Protection in the United States”, pp 11-13. Washington, D.C.: Institute for International Economics.

Presidential election is the latest example) and subsidises mid-term. This accounts for the stop-go nature of multilateral trade negotiations and the very limited windows of opportunity for reaching wide-ranging agreements. There is a sense in which trade agreements are constrained by a crude political calculation of how much a government can get away with without being punished by voters affected by short term shocks. **Patrick Messerlin** points out that only two French leaders were able to take an unambiguously pro-free trade stance: Napoleon III (in 1860) and General de Gaulle (in 1958, at the very beginning of his first presidency). They were both confident of being in power for a long period to come and so could afford to take the risks of short term adjustment costs while betting on long term benefits. By contrast, the Uruguay Round of GATT forced the EU to make significant changes to its Common Agricultural Policy and these turned out to be a political liability for the both the French and German governments as they sought re-election in the mid-1990s. Trade-related economic change is emotive and it gives an easy way for challengers to score points against incumbents. However, the anti-free trade rhetoric of the campaign trail is usually moderated soon after a challenger takes office and is faced with real policy decisions. Rather than an issue that divides left and right, trade policy is becoming an issue that divides those in power from those in opposition.

In Britain, debates over free trade caused political upheavals and turned elections on several occasions during the 19th and early 20th centuries. Yet ever since the repeal of the Corn Laws British voters have generally favoured free trade policies (with the notable exception of the 1930s). In the post-war era, trade has rarely gained salience in British politics, except in the context of British membership of the European Union. Whereas free trade was a highly charged issue in the Victorian era, the British public now takes a sanguine view of its integration into the global economy. Perhaps the arguments were fought and won by free traders in earlier generations; perhaps, as **Michael Wills MP** explains, people are conscious of how international trade has for centuries been a defining feature of British economic life; perhaps they feel there is no point protesting against the inevitable. **Roger Lyons** notes that even during periods of high unemployment in the 1980s and 1990s

when mining, heavy industry and manufacturing suffered from competition from abroad, there was very little support for protectionist trade policies. The prevailing view (although heavily contested by a minority on the left, who saw a political agenda at work) was that these industries had to address their own uncompetitiveness and that shutting out imports was not a solution. As well as reducing member states' options for economic nationalism, the European single market has served as a concrete example of how a large free trade area brings immense net benefits to its consumers and businesses. Meanwhile, the harmonisation of EU trade, state aid and competition policy has reduced the scope for national governments to pursue protectionist policies.

In developing countries the struggle between politics and economics is laden with historical legacy. **Pradeep Mehta** argues that in countries like India public opinion continues to associate trade and investment with the activities of old colonial rulers. And in the world's largest democracy, these associations are an easy prop for nationalist causes. While it was once about keeping control of the 'commanding heights' of the economy, today the fears are about intellectual property and the loss of important commodities such as neem and Basmati rice to patent-hungry corporations. Movements such as the Swadeshi Jagran Manch continue to enjoy wide public support and have the power to sway reformist coalitions.

How to build a progressive consensus for removing trade barriers

A progressive case for trade liberalisation means facing up to the potential downsides and using trade as a lever for poverty-reduction, particularly in the developing world. Building a coalition around this case requires working with the grain of public opinion to mobilise consumers and wider civil society against vested interests that favour protectionism.

1. Engaging consumers

The leading American trade economist Gary Hufbauer once bemoaned the fact that consumer groups are “missing from the ranks in the battle for open markets”, even though they are the principal beneficiaries. One has to go as far back as the 1840s and the English Anti-Corn Law League to find a successful campaign rallying consumers and businesses to the cause of free trade. The League’s novel campaigning methods would come to define the modern pressure group. It was well-organised with a centralized administration, a sizeable budget and a formidable propaganda apparatus (for instance, it founded *The Economist* to advance the League’s free trade philosophy). As well as advancing economic arguments, the League also made free trade a class issue (urban workers and commercial interest versus rural landowners) and a moral issue (they argued that the freedom to trade was a freedom bestowed by God).

Today’s trade justice and fair trade movements have sought to bring consumers to the cause of trade reform and are gradually generating a public awareness about the harmful effect of Northern protectionism on developing countries in the South. Like the Anti-Corn Law League, their arguments go beyond economics by appealing to the moral case for removing trade barriers. **Michael Wills MP** believes that the revival of this compassionate argument is an essential part of the progressive case for removing trade barriers and his conviction is backed up by evidence from the GMF survey. Further echoing the nineteenth century debates, **Patrick Messerlin** argues that free trade can also be used as a weapon against vested interests, an approach that fits well the French concern about inequality and the popular struggle against privilege or with New Labour’s periodic battles with the ‘forces of conservatism’ in the British establishment.

Despite the enormous potential gains that cheaper imports offer consumers and the benefits to taxpayers of reducing the costs of agricultural subsidies, trade policy is far from becoming a ‘pocketbook’ issue. The successes of the Anti-Corn Law League and

free trade campaigns at the turn of the twentieth century were partly attributable to way they made people think of barriers to trade as a form of taxation. Free trade Liberals won their landslide victory in 1906 with a campaign that contrasted the “Big Loaf” of free trade against the protectionist “Little Loaf”. If today’s voters regarded trade barriers as another form of taxation, they might be less willing to acquiesce in protectionist policies. A first step towards changing the way the issue of trade is framed in public discourse is to make the costs of protectionism apparent *at the level of the individual*. **Hilary Benn MP** reminds us that the Common Agricultural Policy costs a typical family of four €800 a year as well as seriously disadvantaging developing countries’ agriculture sectors. By the same token economists like Jagdish Bhagwati and Douglas Irwin are right to caution against the use of global estimates of the potential gains to be made from free trade. These figures are analytically unreliable and usually so large to be meaningless at the level of the individual.³

The public opinion evidence presented in this collection should give trade liberalisers cause for optimism. Most people seem to agree that free trade makes sense but think more about potential downsides than they think about the benefits. This is understandable. The case for removing trade barriers is always couched in very general terms such as predictions of extra GDP growth and job creation. By contrast, the case for protectionism is always founded upon specifics (these industries, these jobs, these families and communities at risk). Cheaper imported goods and a slightly higher rate of economic growth may be important considerations at an aggregate level but they carry much less weight at the kitchen table than the possibility (even if it is remote) of being laid off.

Beyond the possible impact of international competition on jobs and livelihoods, public apprehension about trade liberalisation has been further stirred up by the new popular critique of globalisation and the role of multinational companies in international capitalism. Naomi Klein’s *No Logo* has gained more attention than all the pro-

³ Bhagwati, J. (2004): In *Defense of Globalisation*. Oxford: Oxford University Press, pp230. Irwin, D. (2002): *Free Trade under Fire*. Princeton: Princeton University Press.

globalisation books combined.⁴ As John Lloyd argues in *The Protest Ethic*, the anti-globalisers currently have the upper hand when it comes to grand narratives.⁵ This broader anti-globalisation critique has undermined the reputation of not just the way trade rules work but the very system by which they are negotiated, agreed and implemented.

Pro-globalisation commentator Philippe Legrain criticises *No Logo* as “just a jumble of emotions... a list of things Naomi Klein doesn’t like”.⁶ But the anti-globalisers do not derive their persuasiveness from economic analysis or careful weighing of the facts (both of which have been shown to be shaky at times). Rather, they have homed in on the public’s *emotional* response to the undisputable fact of global inequality. Anti-globalisers jump from their observations of globalisation and poverty to the conclusion that globalisation causes poverty. Yet most economic analysis suggests that in most cases international trade provides a ladder out of poverty while economic isolationism only deepens deprivation.

Nevertheless, liberalisers can take comfort from the fact that Seattle was probably the high-water mark of the anti-globalisation movement’s attack on international trade. **Peter Willetts** explains that in 1999 the diverse and wide-ranging alliance of anti-globalisers was united by what they were *against*. Questions of they are *for* have turned out to be highly divisive. Yahia Said and Meghnad Desai summarise the contradictions:

“There is resentment of developed country domination in industrial markets but also fear of footloose capital employing cheap foreign labour and hurting rich-country workers. There is concern about the falling price of primary commodities of the Third World but also support for farm subsidies in rich countries. There is sentiment against the environmental consequences of global growth led by free

⁴ Klein, Naomi (2000): *No Logo: Taking Aim at the Brand Bullies*. London: HarperCollins/Flamingo.

⁵ Lloyd, John (2001): ‘The Protest Ethic: How the anti-globalisation movement challenges social democracy’. London: Demos.

⁶ ‘The Luxury of Cynicism’, *Scotland on Sunday*, March 4, 2004.

*trade, which could deny the countries the capacity to export and enrich themselves in exactly the ways that rich countries have done until now.*⁷

The belief of WTO-reformers in the Trade Justice Movement (Oxfam, Action Aid, the World Development Movement and War on Want) that international trade can be beneficial to the poor has led them to part company with WTO-abolitionists like Public Citizen, Friends of the Earth International, Global Exchange and Food First who believe international capitalism to be inherently exploitative. Even leading British environmentalist and commentator George Monbiot has poured scorn on deep green localism and defended the economic efficiency of international trade and the multilateralism of the WTO.⁸

'Fair trade' is one of the planks of the NGO-led Trade Justice Movement. Confusingly, the term has two quite different meanings. In Europe 'fair trade' is a term used by retailers to signal to consumers that they treat their suppliers with greater decency than may be the industry norm (for instance setting prices above market rates, agreeing long term contracts or providing training and technical assistance). By buying 'fair trade' products, consumers feel confident that their purchase is helping the producer. Under this interpretation, therefore, 'fair trade' is about consumer sovereignty, social responsibility and voluntarism. A quite different meaning of 'fair trade' has been adopted by organised labour as a response to lower cost competition from abroad and revelations about exploitative treatment of workers. For **Roger Lyons**, fair trade means using the WTO and other trade agreements to leverage higher levels of labour standards in developing countries. He makes an appeal to international workers' solidarity and denies the accusation that using trade agreements to promote basic ILO-endorsed rights like freedom of association and the prohibition of child labour is protectionism by the backdoor.

⁷ Said, Y. and Desai, M. (2003): 'Trade and Global Civil Society: The Anti-Capitalist Movement Revisited', in Anheier, H., Glasius, M. and Kaldor, M. (Eds.): *Global Civil Society* 2003. Oxford: Oxford University Press.

⁸ 'The Myth of Localism', *The Guardian*, 9 September 2003.

Just as the anti-globalisation movement has splintered between abolitionists and reformers, the long-standing Washington Consensus underpinning democratic multilateralism appears to be unravelling. American unilateralists have begun to question the necessity of a rules-based trading system and perceive the democracy of the WTO as an unnecessary constraint on the world's hyperpower. Similar arguments have found favour on the right in France and Italy. They are drawn to the idea of bilateral and regional deals under which the major partner is able to flex its economic and political muscle to get a better deal for its own corporations.

	Trade Unilateralists	WTO-Supporters	WTO-Reformers	WTO-Abolitionists
Who	US neo-cons, Heritage Foundation, France, Italy.	EU, USTR Robert Zoellick, UK, academics.	Oxfam, WDM, most developing world governments, mainstream Greens.	Friends of the Earth, Public Citizen, Our World Is Not For Sale, Naomi Klein, Deep Greens.
Attitude to WTO	Withdraw support and allow to wither on the vine.	Preserve as is.	Give more say to developing countries, address environmental and labour issues.	Abolish.
Agenda on trade	Bi-lateral and regional deals to maximise benefits to own corporations.	Rules-based democratic multilateralism', keep WTO focussed on trade.	End rich country hypocrisy on trade, trade as tool for reducing poverty, fair trade products.	Local trade networks replace global capitalism. Increased state control.

Drawn from Said and Desai (2003): *Trade and Global Civil Society: The Anti-Capitalist Movement Revisited*

While the GMF survey suggests that public opinion in the four countries sampled is located somewhere between the Reformist and Supporter positions, political leaders should not allow the arguments of the more polarised positions, particularly those of the WTO-Abolitionists, to remain unchecked.

2. Develop progressive industrial and labour market policies for the global economy

One of the clearest findings to come out of the GMF survey is that people want 'protection not protectionism'. Respondents tended to agree that trade barriers should be reduced (they reject protectionism) but they want politicians to provide practical assistance to those who might be adversely affected by opening markets (they want protection from economic insecurity). So even though economic theory tells us that free trade is a good thing and that there are benefits to be gained even from unilateral liberalisation, political realities mean we must be cautious liberalisers. It is right to discard the mercantilist mindset that assumes that one country's gain is automatically another's loss but we must remain aware that within a significant net gain for an economy there are likely to be individual losers. Beyond political expediency, fairness and social solidarity should drive governments to adopt policies that make the economy and workforce more resilient to trade-related job displacement and, when displacement is unavoidable, help those adversely affected.

When David Ricardo developed his theory of comparative advantage in the early nineteenth century, he conceived it as something endowed by nature, dependent on unchanging variables like climate and the availability of raw materials. Two hundred years later, the factors that determine productivity are altogether more malleable. Comparative advantage can change over time and both government policy and business decisions can alter the fundamental distribution of productive capabilities in the global economy. The 'new trade theory' of the early 1980s questioned many of the assumptions of neoclassical theory, for instance that under certain circumstances government interventions can improve the allocation

of resources that would pertain under free market conditions.⁹ The effect of government industrial policy on trade patterns can be profound and persistent. US dominance in aircraft, large-scale computers and advanced telecommunications, Japanese leadership in advanced consumer goods like cars and consumer electronics and German strength in chemicals industries are not the result of fair competition in free markets. Each owes much to a history of government intervention.

A key challenge for industrial policy in the global economy is building and supporting industries that are retainable and so will not disappear to lower-wage countries at the earliest opportunity. Retainable industries are often those that have high start-up costs, large economies of scale or demand physical proximity to the end consumer. However, the traditional industrial policy of selecting particular sectors to be the beneficiaries of positive government intervention is problematic. Governments have quite a mixed record in 'picking winners'. The governments of France, Brazil and Japan all invested heavily in their domestic computer industry, but only Japan made it a commercial success. Sector-specific industrial policy inevitably becomes subject to political demands. Popular pressure to support at-risk, symbolically or strategically significant industries may overwhelm a more objective analysis of which industries are the right candidates for special encouragement and assistance.

Even with WTO rules that limit what governments can do help their own industries the scope for industrial policy is still very great. A modern industrial policy can be less concerned with supporting particular sectors and more about providing a climate under which existing and new businesses can thrive. Support of basic research, an active venture capital system and a culture that emphasises entrepreneurship has enabled the US to establish a strong position in new growth sectors like biotechnology and the Internet. India has taken advantage of its abundance of highly-educated English-speakers to establish itself as a leader in off-shoring of data

⁹ See for instance Krugman, P. (1986) *Strategic Trade Policy and the New International Economics*, Cambridge: MIT.

processing and call centres from developed countries. **Roger Lyons** emphasises the importance of the skills agenda in closing the long-standing productivity gap between the UK and many of its competitors.

Even if a government is able to establish a solid bedrock of retainable industries and industries that require proximity to the customer, there will always be a background level of 'churn' in labour markets, reflecting the role of creative destruction of the capitalist model of economic development.¹⁰ Equipping people to make the most of a faster-changing and more flexible labour market (that is to say, increasing workforce *employability*) requires ever-greater investments in education and life-long learning.

Wage insurance is an idea that has been gaining ground in the US debate about trade-related job insecurity.¹¹ This policy has a distinct advantage over traditional unemployment benefits because it encourages displaced workers to take new employment as soon as possible by only being disbursed once workers find a new job. Another way of helping displaced workers is to subsidise the provision of on-the-job training by companies to newly hired employees.

Some companies are introducing enlightened policies of their own. In the US United Technologies not only gives full financing for as much education, job- or non-job-related, as its workers want, but will finance four years of additional schooling for any worker it lays off because of a move of production abroad. When IBM shut down operations in Tucson, Arizona, it offered up to two-years in wages to those employees that they could not transfer. Businesses that have taken the initiative have done so partly to counteract employee and union resistance to offshoring, partly to maintain good morale among

¹⁰ Kletzer, Lori (2001). *Job Loss from Imports: Measuring the Costs*. Institute for International Economics.

¹¹ A wage insurance scheme would mean that eligible workers who are made redundant receive some fraction of their wage loss (say, 50 per cent) for a defined period (say, 2 years) following the initial date of job loss, but the benefit would only begin to be paid when the worker found a new job. For more discussion of possible schemes, see <http://www.iie.com/publications/pb/pb01-2.htm>.

those staff who will remain employed and partly as an element of brand management and corporate social responsibility strategies. **Paul Morrison** argues that most companies can learn from those that have handled both the opportunities and challenges presented by offshoring.

Opponents of globalisation argue that greater economic integration has increased labour market insecurity *and at the same time* reduced the capacity of the state to provide countervailing social insurance policies. Although there is a kernel of truth in this argument, it should not lead us to turn our backs on globalisation. Instead we should face up to the great challenge of progressive politics at the start of the twenty-first century: putting in place policies that meet the need for economic security and social justice while recognising that in fast-moving, integrated global economy and more atomised societies, the scope for traditional big government economic management and highly redistributive social policy is diminished.

3. Reinforce the links between trade and development

After the setback of the Seattle Summit in 1999, the member governments of the WTO decided to launch a 'development round' of negotiations that would contribute towards the United Nations' wide-ranging Millennium Development Goals that include halving by 2015 the number of people living in extreme poverty (i.e. on less than one dollar a day).¹² After the broad framework for the round was agreed at the Doha Summit in December 2001, progress has been painfully slow. Results from GMF survey show that the public strongly believes trade to be a key component of strategies to reduce poverty in the developing world. Reinforcing the link between trade and development appeals in equal part to the economic and moral cases for trade liberalisation. In practical terms, further reform of developed countries' agriculture subsidy programmes is necessary to meet the legitimate demands of developing countries. **Paolo De Castro's** analysis of the evolution of European farm policy shows that the reorientation of farm policy away from a producer-

¹² <http://www.un.org/millenniumgoals/>.

driven paradigm to greater adherence to the consumer agenda will allow the EU to remove most of the egregious elements of existing policies such as export subsidies and barriers to market access. Even so, the level of domestic support will remain contentious and subject to further negotiation between trading partners.

Shifting the deadline for completing the round to the end of 2005 still leaves very little time to reach an agreement that does justice to the objectives of the Doha Declaration. The increasing organisation and assertiveness of the G20 and G90 groupings of developing and exporting nations increases the complexity of the negotiating matrix, although it is possible that having proved their point at Cancun, developing countries will be under pressure to use their new-found power to shape a new WTO deal. They may fear that a second walk-out would do them more harm than good.

While the main challenges are within the context of negotiations on the Doha Development Agenda, it is possible for developed countries to show good faith by opening markets unilaterally. Economists have long argued that trade liberalisation benefits the liberaliser and that rich developed countries have nothing to fear from the greater integration of much less developed countries into the world economy. In twin departures from the typical mercantilism of trade policy, the European Union's Everything But Arms (EBA) initiative extending duty free access to EU markets to the 50 least developed countries and the United States' African Growth and Opportunity Act (AGOA) which improves market access for 37 countries in sub-Saharan Africa suggest that enlightened self-interest has finally reached policy-makers. Yet the exclusion of key agricultural products from both programmes and the tough policy conditionality of AGOA have attracted criticism from developing countries and development NGOs. The EU's offer that least developed countries (LDCs) can have the Doha Round 'for free' (i.e. without making any concessions of their own) is seen by some as a positive development. But if, as **Brian Hindley** puts it, protectionism is like 'shooting yourself in the foot' there may be merit in using the WTO to leverage the removal of the South-South trade barriers that account for a large proportion of the protectionism that harms exporters from poorer developing countries.

Beyond economics: trade and 'grand strategy'

Negotiating the removal of trade barriers presents politicians with a complex public opinion challenge. The anti-globalisation movement attacks almost everything done at WTO as evidence of a dark conspiracy by corporations to take over the world. The glacial pace of liberalisation in agriculture and textiles is guaranteed to incur the continued criticism of the trade justice movement and development campaigners. People who work in protected industries fear they are being sold down the river. Developing countries are suspicious of incursions into their national sovereignty and 'policy space'.

To meet this challenge **Daniel Drezner** argues that the case for trade liberalisation should go beyond a tally of economic growth and jobs gained and jobs lost. The US and the EU should see free trade as a core part of their foreign policy 'grand strategies'. Like fellow American Michael Mandelbaum, who elevated free trade alongside peace and democracy as one of a trio of ideas that have 'conquered the world', **Drezner** is echoing the arguments of nineteenth century free traders. Shortly after the death of Anti-Corn Law League leader Richard Cobden, William Gladstone praised him for articulating the "modern idea" that:

"trade is not only a law of wealth and prosperity, but a law of kindness among all nations; that every transaction, of which thousands upon thousands are at this moment going between this country and any other... was a transaction forming, at it were, one single thread in a web of concord woven between people and people."

The idea of trade as a pillar of civilisation and peaceful relations between countries was at the heart of both American republicanism and the post-WWII European integration project. In each case it has delivered more than even the most ambitious could have imagined. Placing long term gain ahead of short term costs requires political leadership and lines of reasoning that resonate with the core of public opinion that is ultimately supportive of the idea that people should be able to trade freely. The progressive case for removing

trade barriers marries the social solidarity and concern for others that motivates supporters of fair trade with the economic rationality inherent in free trade. The essays in this collection are united by their realism about the size of the challenge at hand and their optimism that this progressive case for removing trade barriers can prevail.

Section 1:

Public Opinion and Trade in Five Countries

Toward a New Compact on Trade and Poverty Reduction

John Audley and Hans Anker

Introduction¹

The United States and the European Union have repeatedly made the case that fighting global poverty and trade liberalisation must go hand in hand. This view is also reflected in the core mission of the World Trade Organisation's (WTO) Doha Development Agenda. "Doha" calls for further trade liberalisation to help alleviate persistent poverty in the developing world. In 2002 WTO Director-General Mike Moore put it as follows:

"Our challenge is (...) to better assist countries to participate successfully in the multilateral trading system. With this Agenda, Members have placed development issues and the interests of our poorer members at the heart of our work."²

But while the commitment by political leaders to address poverty through trade may be sincere, their actual behaviour sends an entirely different signal, especially to people living in developing countries. US President George W. Bush has argued that protecting

¹ The chapter is based largely on a report we wrote entitled, *Reconciling Trade and Poverty Reduction: A German Marshall Fund of the United States Report on Public Opinion in France, Germany, the United Kingdom, and the United States*. (Washington, DC: The German Marshall Fund of the United States), 2004. www.GMF.org.

² Speech by Mike Moore, *Special event at the UNDP 2002 executive board meeting*, to the UNDP Executive Board at the Palais des Nations, Geneva, 2002. The transcript of this speech is available on the WTO website: www.wto.org.

US agricultural communities from foreign competition is “a matter of national security”.³ The spreading panic over the “outsourcing” of white-collar jobs led Democratic presidential candidate John F. Kerry to turn his pro-trade voting record on its head. In the primary campaign, Kerry accused corporation heads of behaving like “Benedict Arnold CEOs”, thus invoking the image of the infamous army general who defected to the British in the American Revolutionary War.⁴ In Europe, both President Jacques Chirac of France and Chancellor Gerhard Schröder of Germany managed to block any cuts in the Common Agricultural Policy until at least 2013. This means a deliberate decade-long extension of competition-distorting agricultural subsidies to European farmers, at the expense of farmers from developing countries who cannot compete with subsidized, rich country farmers.

On both trade and development policy, the common cry from politicians is that they are boxed in by national public opinion. Elected officials routinely assume that their constituents did not elect them to show compassion for farmers living elsewhere, that voters view additional development assistance as either unwarranted or wasteful, and that promoting public policies that could lead to the export of jobs is tantamount to electoral suicide.

While there is ample evidence to support these assumptions, evidence from the Trade and Poverty Reduction Survey, commissioned by the German Marshall Fund of the United States, shows that citizens from four rich trading countries – France, Germany, Great Britain, and the United States – are very supportive of international trade and even prefer it as a means of fighting poverty worldwide.⁵

³ Speech, George W. Bush at the signing of the Agricultural Supplemental Bill, Crawford, TX, August 13, 2001. The transcript of this speech is available on the official website of the White House: www.whitehouse.gov.

⁴ Speech by John F. Kerry at Wayne State University, Detroit, March 26 2004.

⁵ The survey was designed to better understand how the public perceives the relationship between trade and poverty reduction. The survey gauges public opinion in France, Germany, the United Kingdom, and the United States on issues ranging from agricultural subsidies to international aid programs to global and regional trade, and compares and contrasts opinions from the four countries. The survey questionnaire and entire dataset are available on www.GMF.org. Additional survey

The public in these countries wants political leaders to forge a new consensus in support of trade liberalisation, one that embraces the potential benefits of trade liberalisation at home and in developing countries without sugar-coating the costs. The key to building this new consensus, a New Compact for Trade and Development as we call it, is by creating opportunities for *all* people, in the rich and the developing countries, to provide for themselves and for their families. This includes better education for workers at home, clearer safeguards to protect the poorest economies from the dramatic shocks of the global market, and effective integration of labour, environment, and good governance provisions into trade policy packages.⁶ For this to occur, political leaders must show leadership in two ways. First, they must have the courage to tell trade proponents that including these provisions in trade packages is good trade policy. Second, they must tell trade opponents that heavy-handed approaches to labour and the environment in trade do not work.

This chapter is structured as follows. We will first present the main findings of the Trade and Poverty Reduction Survey. Then, we will outline the New Compact as it emanates from the survey. After this, we look into the implications for messages on international trade. We will end with a short overview of the major lessons learned through the Trade and Poverty Reduction Survey.

data used to write this chapter include, Steve Kull, *Americans on Globalization, Trade, and Farm Subsidies*, Program on International Policy Attitudes – PIPA, January 2004 and 2001; Bill McInturff, Elizabeth Harrington, and Bob Drake, *MDG Campaign Research: Survey of 1000 Voters Conducted April 13-18, 2003*, (Washington, DC: Better World Campaign, United Nations Foundation).

⁶ See for somewhat similar recommendations: Philippe Legrain, *After Cancun: what future for multilateralism?*, *Progressive Politics*, Volume 3.4., March 2004.

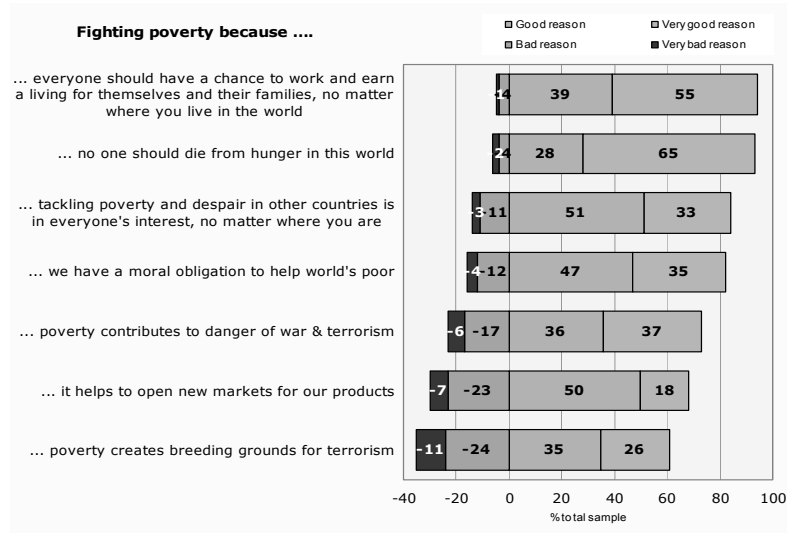
Main Findings of the Trade and Poverty Reduction Survey

Main Reasons to Fight Poverty: Hunger and Chance to Earn a Living

The results of the Trade and Poverty Reduction Survey show a very clear and broad picture of public opinion on the relationship between trade and poverty. In the respondents' minds, there are two main reasons for fighting poverty, each of which generates deep emotional intensity. First, the vast majority of people surveyed (93%) in the four countries believe in fighting poverty for humanitarian reasons, especially the notion that no one in this world should die from hunger. Second, a similarly large majority (94%) of the respondents think poverty should be fought because "everyone should have a chance to work and earn a living for themselves and their families, no matter where you live in the world". Interestingly, support for self-reliance is stronger among European respondents than among respondents from the US. Other aspects, such as enlightened self-interest, a moral obligation to fight poverty, or poverty providing breeding grounds for terrorism, are also seen as strong reasons to fight poverty, but generate considerably less emotion than 'hunger' and 'chance to earn a living' (as evidenced by a 20-point drop or more in the numbers of respondents saying 'very good reason').

FIGURE 1: WHY FIGHT POVERTY?

Note: Question text: "Now I'm going to read you a number of reasons for (COUNTRY) to fight poverty in developing countries, countries whose national incomes are far lower than ours here in (COUNTRY). Please tell me whether you find this a very good, good, bad or very bad reason to fight poverty in developing countries?" Question asked of 500 respondents in each country (split sample).



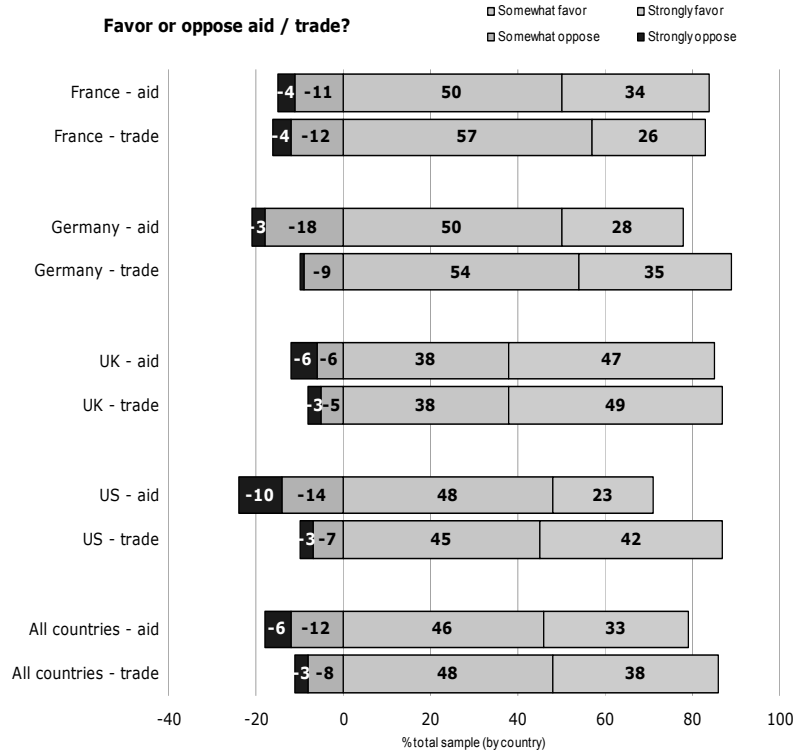
Strong Support for Development Assistance and Trade

An overwhelming majority of the respondents (79%) react favourably to providing assistance to developing countries, while only a small minority (18%) opposes aid. Support for development assistance runs deepest in Britain, with 47% strongly in favour, fourteen points above the overall average score. Conversely, the strongest opposition to development assistance is found in the United States: 24% oppose aid, with 10% "strongly opposed" – twice as many as in the other countries. Resistance against development assistance is the strongest among older respondents, pensioners in particular, among the lower-educated respondents (high school only) and among respondents who identify themselves as conservatives.

These findings are in line with recent focus group work done on behalf of Better World Campaign.⁷

FIGURE 2: OPINION ON AID & TRADE

Note: Question text: "Please tell me if you strongly favour, somewhat favour, somewhat oppose or strongly oppose". Question asked of 500 respondents for 'providing subsidies to farmers' (split sample) and to 250 respondents per country for all other items.



⁷ Memorandum to German Marshall Fund outlining possible trade and poverty reduction public education approaches, 7/27/04 (authors' files) and memorandum from Public Opinion Strategies to Better World Campaign summarizing key findings from the March Focus Groups, 5/7/04, (authors' files).

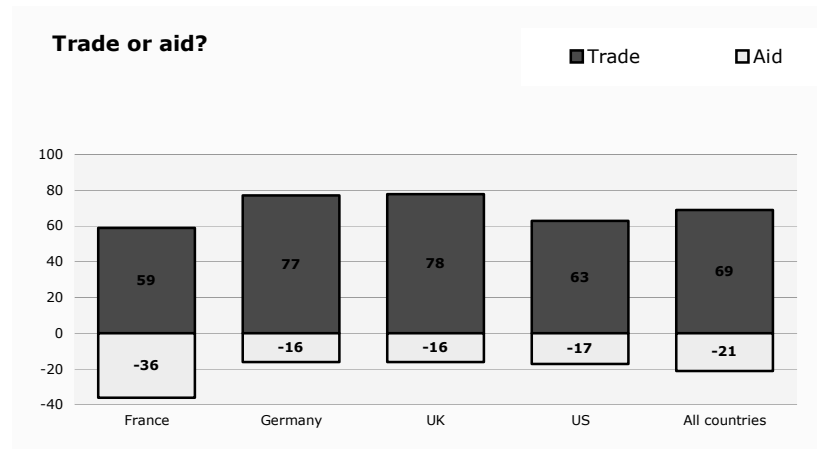
With the exception of France, respondents are even more positive about international trade than about development assistance. An impressive 86% of the respondents react favourably, with just 11% opposing it. This is remarkably strong support for trade, especially in the light of the vociferous campaigns launched by the anti-globalisation movement since the late 1990s. The high level of support for international trade comes as somewhat of a surprise in the light of mixed feelings about globalisation expressed by these very same respondents (46% favourable, 43% unfavourable). Support for trade is strong across the board and is not coloured by ideology or socio-demographics, suggesting that international trade is viewed as just another part of modern life. Still, there are meaningful differences between the countries, especially in terms of emotional intensity. Support for trade is particularly intense in the UK (49% 'very favourable') and the US (42% 'very favourable'). In the US, trade generates substantially more positive emotion than development assistance (just 23 percent 'very favourable').

Trade Seen as More Effective than Aid

Seven out of ten respondents (69%) pick trade over aid when asked which is the best way for rich countries to help fight poverty; just 21 percent pick aid and 10 percent do not know. British respondents are most adamant about trade, with 78% preferring trade over aid, followed immediately by 77% of the German respondents. By comparison, 63% of Americans prefer trade to aid, but this is mainly due to a usually large number of respondents who preferred both (12%). The French respondents, however, do behave differently. While there is still an impressive 23-point margin in France in favour of trade, more than one-third of the French respondents (36%) believe that aid is more effective than trade in helping developing countries. That means that for every person picking trade over aid in Germany, the UK or the US, two people will be doing so in France.

FIGURE 3: TRADE OVER AID

Note: Question text: “There is a lot of talk about what is better for developing countries: helping them through aid or helping them by making it easier to trade their products on the global market. What do you think is most effective?”

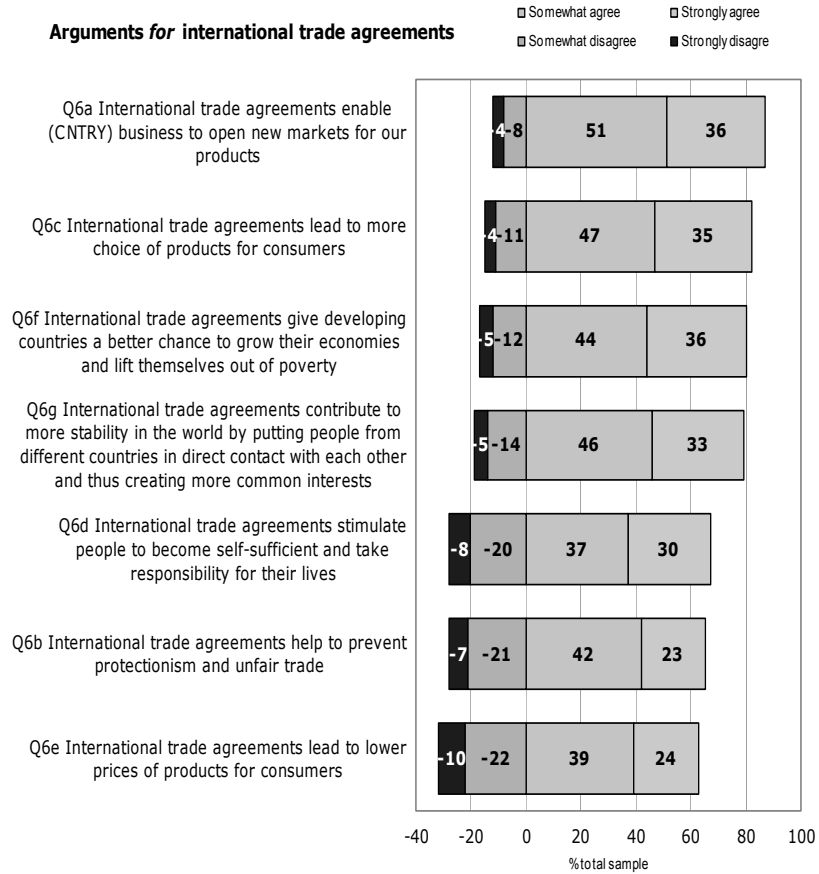


Support for International Trade: New Markets, More Choice, Self Reliance and More Direct Contact

Respondents from all four countries respond positively to a broad set of arguments in support of trade agreements. People recognize the benefits of opening new markets, more choice for consumers and, importantly, new opportunities for developing countries to grow their economies and lift themselves out of poverty. Respondents are also open to the idea that trade contributes to more stability in the world by putting people from different countries in direct contact with each other. Although still generating majority support, people are less likely to believe that trade will lead to lower prices for consumers. This is, in all likelihood, a reflection of the economic hard times that many respondents are currently experiencing.

FIGURE 4: ARGUMENTS FOR TRADE

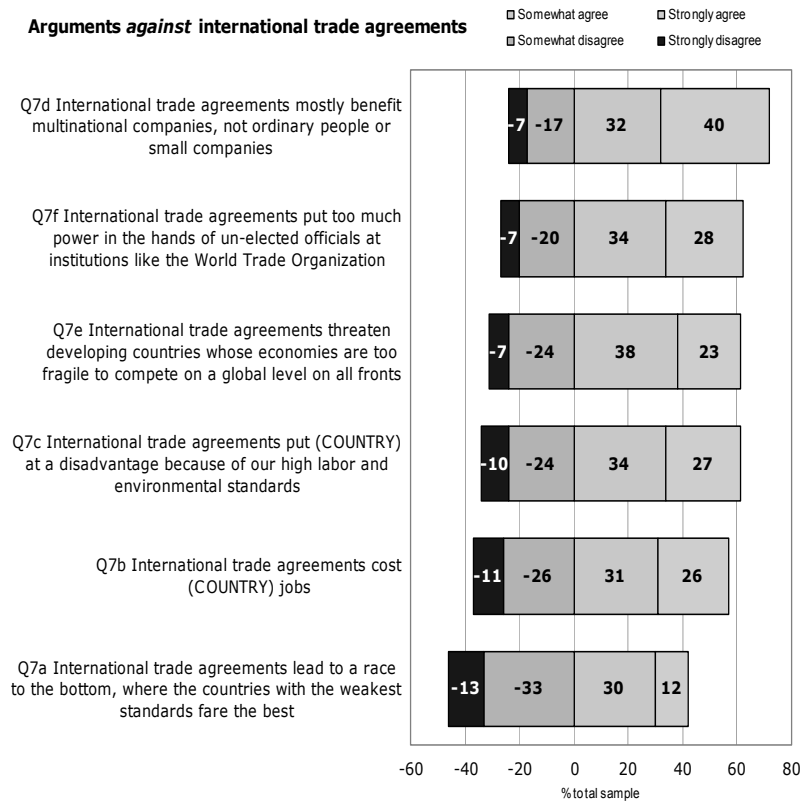
Note: Question text: "Now I'm going to read you some statements about international trade agreements. As you may know, the purpose of international trade agreements is to make it easier for goods to be moved across national borders by removing tariffs and other obstacles to trade. For each statement, please tell me whether you strongly agree, somewhat agree, somewhat disagree or strongly disagree with it."



Attacks on Trade: Big Corporations, Big Winners

The biggest drawback of international trade agreements, at least in the eyes of the respondents in the four countries included in the survey, is that they mostly benefit multinational companies rather than ordinary people or small companies. This concern resonates the strongest (72% agree) among a set of six arguments against international trade agreements that were presented to the respondents. It is also the most emotionally charged response (40% “strongly” agree) – four points stronger than the strongest arguments in support of international trade.

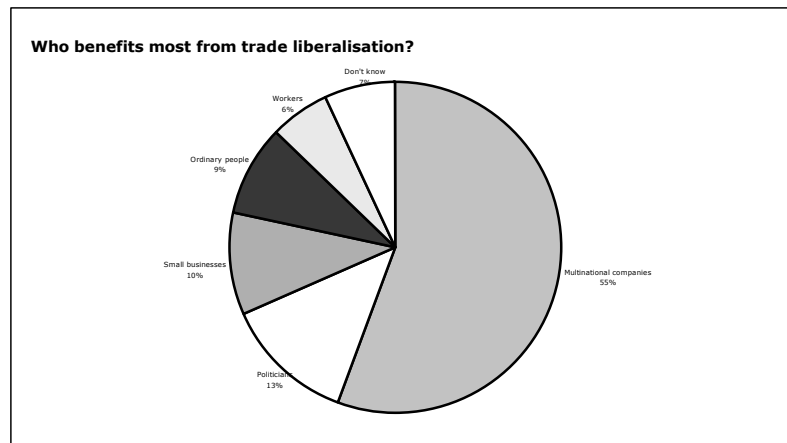
FIGURE 5: ARGUMENTS AGAINST TRADE



Respondents' concern that multinationals benefit most from trade also finds support elsewhere in the Trade and Poverty Reduction Survey. When asked directly who benefits most from trade liberalisation, a clear majority of the respondents (56%) says that multinational companies are the primary beneficiaries. The number is particularly high in France (65%) and Germany (62%). This sentiment is problematic, because the survey also shows that big corporations appear to be suffering from, to put it mildly, an image problem (just 41% favourable, with a weak 7% very favourable). These numbers form a stark contrast with the almost sacrosanct status of small businesses (a whopping 85% favourable, of which a dramatic 46% "very" favourable, indicative of strong emotional support). Citizens view international trade as a project of multinationals rather than a project of globally connected small businesses.

FIGURE 6: WHO BENEFITS MOST FROM TRADE LIBERALISATION?

Note: Question text: "And which of the following groups do you think benefits MOST from lowering barriers in international trade?"



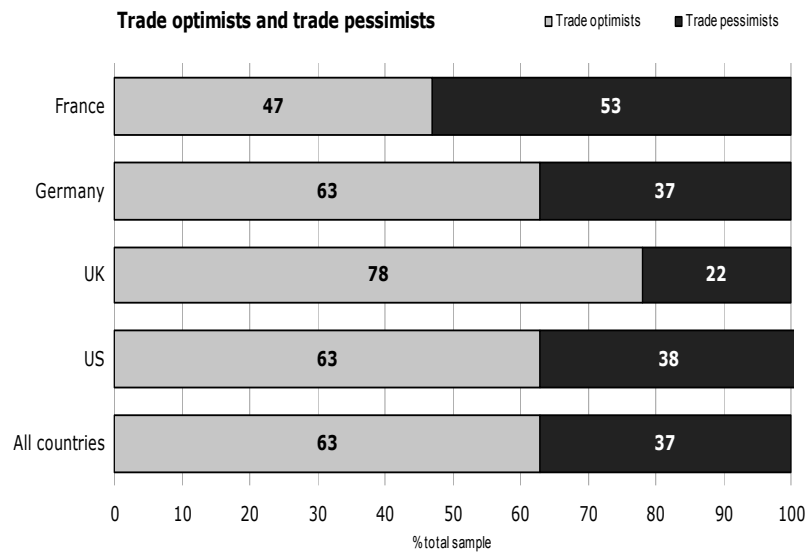
The portrayal of trade as a project of multinational companies is not the only way in which support for international trade can be

undermined. People are also open, but with much less emotion, to other criticisms that focus on the lack of democratic accountability, threats to labour and environmental standards, loss of jobs and developing country economies being too fragile (all within a 57-62% agreement bandwidth). Yet people are surprisingly reticent about supporting the claim that trade agreements lead to a race to the bottom with countries with the weakest standards faring the best (just 42% agree and 46% disagree). Something stops respondents from agreeing with this argument and it may be just the fact that such a position is tantamount to admitting that there is little hope for a prosperous future for citizens in western democracies.

In contrast with the general attitudes towards international trade as shown in Figure 2, these arguments for and against international trade are strongly coloured by socio-demographic and political factors. Apparently, the substance of these arguments triggers political schemata that are not triggered by the general term "international trade". Respondents can be neatly categorized into "trade optimists" (agree with positive statements, disagree with negative statements) and "trade pessimists" (vice versa). Almost two-thirds of the sample, 63%, can be characterized as trade optimists; the remainder, 37%, are trade pessimists. British respondents act as the cheerleaders for trade with an impressive 78% optimists and just 22% pessimists. The US and Germany follow with both 63% trade optimists. France, again, is different. It is the only country where a majority of the population are trade pessimists (53%).

FIGURE 7: TRADE OPTIMISTS AND PESSIMISTS

Note: Constructed from responses to items shown in figures 5 and 6.



Trade optimists place themselves disproportionately on the ideological right (in the US: conservative) and tend to be older and lower educated.⁸ It is remarkable to find these respondents in the optimists' camp, because this authoritarian segment of the general public typically forms the core of reactionary resentment-laden political movements. Trade pessimists, on the other hand, tend to be left-wing, higher-educated, young people (younger than fifty). The anti-trade voice of these "young red intellectuals" is particularly strong in France and Germany. In Germany, however, the ideological component is largely absent, probably suppressed by the

⁸ This finding contrasts the results of a study conducted by Kenneth Scheve and Matthew Slaughter in *Globalization and the Perceptions of American Workers* (U.S. Institute for International Economics). They report that higher education is positively correlated with embracing further trade liberalisation

existence of a government coalition of greens and social democrats. In the US, being on the left also contributes to trade pessimism, but in contrast with Germany and France, trade pessimism in the US is largely a function of being lower educated (not higher), being older (50-65 years; not younger), and being female. It is not too difficult to recognize the profile of manual workers here. Finally, in the UK, no particular group stands out among trade pessimists or optimists.

Protection, more than Protectionism

Respondents in all four countries care deeply about “protecting our businesses” (83% favour, of which 49% strongly favour). For example, farmers who “protect” the countryside receive a heroes’ welcome (80% favour; just 17% oppose), not just in France where this is a big political issue, but also in the other three countries, including the United States. But this support goes down, with the US holding up quite strongly, when the reference to the countryside is removed (14-point drop) or when respondents are informed that protection will be achieved by “raising tariffs on imported goods” (30-point drop). Respondents value the notion of “protection”, but much less so if this is to be achieved through protectionist means. Still, respondents do not fully reject protectionism. They still give an edge to “protectionism” (42% favour; 35% oppose) and show only mild resistance when the term is explicitly described as “imposing tariffs on imported goods” (44% favour; 48% oppose). The German respondents are the only ones who soundly reject protectionism (just 25% favour; 44% oppose). In the other countries, the United States in particular, protectionism still has the potential to get traction among the broader public.

TABLE 1: PROTECTION AND PROTECTIONISM

	France	Germany	U.K.	US	All
Protecting our businesses	+67 (83/16)	+79 (88/9)	+74 (85/11)	+72 (83/11)	+73 (85/12)
Providing subsidies to farmers <i>who protect the countryside</i>	+63 (81/18)	+66 (82/16)	+57 (77/20)	+66 (80/14)	+63 (80/17)
Protecting our businesses <i>by raising tariffs on imported goods</i>	+9 (51/42)	+4 (51/47)	+13 (53/40)	+37 (65/28)	+16 (55/39)
Providing subsidies to farmers	+14 (55/41)	+27 (63/36)	+32 (68/26)	+59 (77/18)	+36 (66/30)
Providing subsidies to businesses	+27 (61/34)	-21 (35/56)	+36 (62/26)	0 (46/46)	+11 (51/40)
Protectionism	+1 (45/44)	-19 (25/44)	+28 (52/24)	+15 (43/28)	+7 (42/35)
Protectionism, <i>like imposing tariffs on imported goods</i>	-7 (44/51)	-17 (32/59)	-7 (43/50)	+25 (58/33)	-4 (44/48)

Note: Cell entries are percentage 'favourable' minus percentage 'oppose'. Higher scores indicate more favourable responses. Cell entries within parentheses are total number favourable (left) and total number oppose (right). Question text: "Please tell me if you strongly favour, somewhat favour, somewhat oppose or strongly oppose". Question asked of 500 respondents for 'providing subsidies to farmers' (split sample) and to 250 respondents per country for all other items.

Greater Specificity, Greater Concern

Support for protectionist measures grows even larger when the protectionism discussion is put in context through the example of growing cotton.⁹ Just one out of three respondents takes the principled stance of opposing subsidizing European and American farmers, even if that means they will be driven out of business. More than half the respondents (56%) are open to some kind of protectionism when it comes to cotton. Roughly 60% of this group

⁹ During the fieldwork, the WTO ruled cotton subsidies illegal. We have not traced any effect of this ruling on the data in any of the four countries included in the survey.

(34% in total) say cotton subsidies are 'okay'; the remainder of this group does not believe so but gets persuaded into supporting subsidies after being confronted with the threat that otherwise American and European farmers will be driven out of business. German citizens again take the most principled stand; half of them (49%) reject subsidizing cotton farmers, even if that means European and American farmers lose their livelihood. This resistance to protectionism is substantially lower in France, and much lower in the UK and the US.

TABLE 2: COTTON SUBSIDIES

	France	Germany	U.K.	US	All
Okay	35	19	40	43	34
Only okay if European and American farmers are driven out of business	24	26	22	17	22
Not okay	36	49	32	28	36
Don't know	5	6	6	12	7

Note: Question text: "The United States subsidizes its cotton farmers with 2.3 billion US dollars annually. The EU subsidizes its cotton farmers in Greece and Spain by another 700 million dollars per year. This has made it very difficult for the otherwise very competitive West-African cotton farmers to compete on the world market for cotton. Thinking about this situation, do you think it is okay for the US and the EU to subsidize their cotton farmers or do you think that is not okay?" and follow-up question if not okay: "And what if not subsidizing European and American farmers would mean that many of them would be driven out of business, would it under those circumstances be okay or not okay for the US and the EU to subsidize their cotton farmers?". Question asked of approximately 1,000 per country (full sample).

The tension between support for international trade in principle and in practice is further reflected in people's opinions of specific trade agreements. While there is strong overall support for the free flow of people, goods, and services between countries (67%), support drops by as many as 16 points for specific trade agreements designed to achieve these objectives such as the North American Free Trade Agreement (NAFTA) or the European Union internal

market, agreements designed to achieve these specific objectives. The drop in support is strongest in the United States (28 points), where the public debate over NAFTA continues, nearly ten years after its passage. Clearly, the closer one's experience to a specific trade instrument is, the stronger one's opinion, and the more often that opinion is negative.

This more negative public opinion to specific instruments like NAFTA and the internal European market partly reflects the public's more sober assessment that trade liberalisation causes domestic disruptions for workers. With the exception of the British, people believe that international trade costs jobs at home. The French respondents are the most pessimistic about this, followed by the Americans and the German respondents.

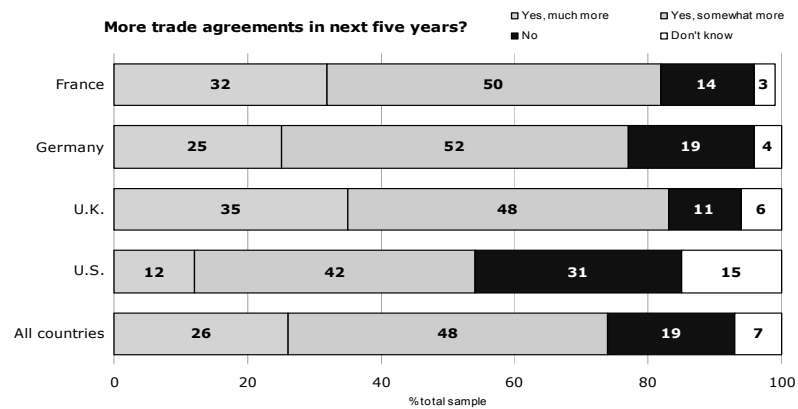
TABLE 3: JOBS

	France	Germany	U.K.	US	All
Jobs in <i>developing countries</i>	+45	+51	+55	+75	+57
Jobs in <i>the world</i>	+40	+37	+60	+63	+50
Jobs in <i>our country</i>	-42	-19	+20	-27	-27

Note: Cell entries are percentage 'increase' minus percentage 'decrease'. Higher scores indicate greater increase. Question text: "Overall, do you think international trade increases or decreases the number of (PROMPT)?" N is approximately 1,000 per country for 'jobs in our country' (full sample). For all other items question asked of approximately 500 respondents (split sample).

The Future: Toward a New Compact on Trade and Poverty Reduction

Citizens in all four countries demonstrate a very clear sense of direction for the future of trade agreements. People welcome new trade agreements as long as they are not rushed. Surprisingly, the greatest resistance to new trade agreements is not found in France, but in the United States (31% saying no more trade agreements).

FIGURE 8: MORE TRADE AGREEMENTS IN NEXT FIVE YEARS?

Note: Question text: "When you think about the next five years, would you LIKE to see more international trade agreements or not? (IF YES:) Would that be much more or somewhat more?"

But this is not the whole story. People also want something in return for throwing their support behind trade. First, they insist on being given the educational opportunities to deal with the changes in the labour market — changes produced in large part by the twin processes of globalisation and trade liberalisation. Second, people count on their leaders to find ways to allow for a gradual entry of developing countries into the global trading system, thereby maximizing the chance of entering the global trade family successfully. Finally, citizens insist on due respect for democratic values and rules, especially accountability and transparency. What we see here are in effect the broad outlines of a New Compact on Trade and Poverty, where citizens say: we accept further trade liberalisation, we understand trade contributes to prosperity, but we want you, our leaders, to pay attention to us, to developing countries and to our key democratic principles. Taking this call for a New Compact seriously and acting boldly on it would be the best way to solidify support for international trade and to keep the door to protectionism shut.

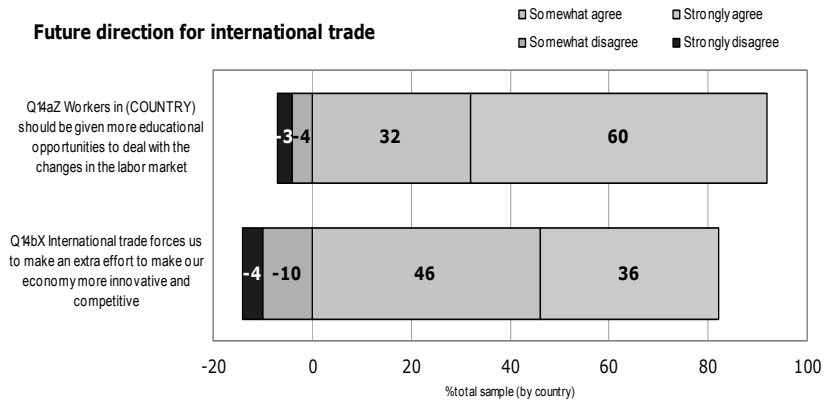
Think about us: Provide the educational tools so that people can deal with the negative effects of trade.

Respondents in all four countries understand that trade liberalisation and the global competition it produces will inevitably also produce negative outcomes, like job losses and harmful effects to the environment. Remarkably, many citizens appear to have already internalized these kinds of risks as an integral part of 21st century life. What they ask in return – and this was one of the strongest emotional responses in the entire survey – is to be given more educational tools to deal with the changes in today's labour market (92 percent 'agree', of which a dramatic 60 percent 'strongly agree', signifying intense emotion). Just as much as people want developing countries to be self-sufficient, they also want themselves to be able to compete and carry their own weight in the global economy.

This very strong emotional response provides a stark contrast with the dramatic lack of urgency around one of the most ambitious policy goals of the European Union: realizing the Lisbon strategy aimed at making the EU the world's "most dynamic and competitive economy" by 2010. An item in our survey that relies on the same idiom draws a surprisingly weak emotional response (a dramatic 24-point drop in the number of 'strongly agree' response compared with the education hot button). This suggests that the problem with Lisbon is not so much citizens failing to understand what is at stake or disagreeing with the underlying policy agenda, but rather the failure on the part of policymakers to find the right words to make an emotional connection with the European citizenry, enabling them to understand that this is about their own future, not some kind of occupational therapy for policymakers.

FIGURE 9: EDUCATIONAL TOOLS

Note: Question text: "Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statements?" Question asked of approximately 333 per item per country (split sample). For each entry question has been asked of approximately 1,000 respondents (pooled over 4 countries).



Think about Developing Countries: Creative Policies to Facilitate Developing Countries' Entry into the Global Trade Family.

The strong emotional call for help in developing the skills required to compete successfully in the global economy does suggest that people are at least somewhat worried about their own prospects. That, however, does not stop them from insisting on measures to allow for a gradual entry of developing countries into the global trade family. There is strong support for giving developing countries a break by allowing them to hold on to some protective barriers until they have reached a certain minimum level of economic development. There is also strong support for allowing developing countries to enter trade agreements step by step. These measures generate most support in the US and the least support in the UK. Finally, our survey also points to strong support for adjusting intellectual property rules to enable developing countries to purchase life-saving medicines at prices they can afford. The outlier here is the United States, where support is considerably lower.

TABLE 4: GRADUAL EXPOSURE TO THE GLOBAL MARKET FOR DEVELOPING COUNTRIES

	France	Germany	U.K.	US	All
<p><i>Statement 1</i> Developing countries should be allowed to continue some of their protective trade barriers until they have reached certain minimum levels of economic development</p> <p><i>Statement 2</i> Protective trade barriers should be removed no matter where they are</p>	+51 (75 23)	+45 (72 27)	+25 (60 35)	+58 (75 17)	+55 (70 26)
<p><i>Statement 1</i> Developing countries should be allowed to join international trade agreements step by step for different parts of their economies</p> <p><i>Statement 2</i> Developing countries should join international trade agreements as a whole or not at all</p>	+49 (73 24)	+43 (71 28)	+29 (62 34)	+53 (73 20)	+43 (70 27)
<p><i>Statement 1</i> The rules that protect intellectual property rights should be adjusted to enable developing countries to buy life-saving medicines for prices they can afford</p> <p><i>Statement 2</i> The rules that protect intellectual property rights should remain unchanged to encourage development of new medicines and scientific inventions</p>	+64 (81 17)	+62 (79 18)	+66 (82 16)	+19 (55 36)	+54 (75 21)

Note: Cell entries are percentage 'agree with first statement' minus percentage 'agree with second statement'. Higher scores indicate stronger agreement with first statement. Cell entries within parentheses are total number agree with first statement

(left) and total number agree with second statement (right). Question text: "Now I'm going to read you some pairs of statements. As I read each pair, please tell me whether the FIRST statement or the SECOND statement comes closer to your own views, even if neither is exactly right. The (first/next) pair is (PROMPT). Which statement comes closest to your view, would that be the 1st statement MUCH more, the 1st statement SOMEWHAT more OR: the 2nd statement MUCH more, the 2nd statement SOMEWHAT more." Question asked of approximately 333 per item per country (split sample).

Think about Democracy: Greater Openness and Transparency

Support for international trade does not lend support to the manner in which trade agreements are negotiated. Promoting greater openness and accountability in reaching trade agreements so that all voices can be heard is at the top of respondents' policy agenda in the United Kingdom (mean score 7.3 on a 10-point scale), the United States (7.1) and Germany (6.8). Only in France (6.7) do respondents set a different top priority: strengthening international organisations like the World Health Organisation (WHO) and the United Nations Children's Fund (UNICEF) to better balance international trade and social needs. This not-so-hidden call for global governance is much less appreciated in the United States (mean score 6.2).

The call for transparency becomes even stronger when people are put on the spot and forced to choose between continuing the current way of negotiating trade agreements or whether a change is needed in the form of greater openness and accountability. Under those circumstances, overwhelming majorities of respondents in all four countries opt for greater transparency. This call for more openness reflects a mature democratic norm held by citizens and does not constitute some kind of easy populist appeal. Support for such an appeal by calling for a greater voice for ordinary citizens in the decision-making process in reaching trade agreements draws 15 points less support in all countries. When it comes to these kinds of abstract issues, citizens quickly feel somewhat intimidated by the sheer complexity of the task at hand and their own busy lives. So rather than playing an active role themselves, they feel it makes more sense to make sure that the proper democratic systems are in place.

**TABLE 5: MORE OPENNESS AND ACCOUNTABILITY
IN TRADE NEGOTIATIONS**

	France	Germany	U.K.	US	All
<p><i>Statement 1</i> The current ways in which trade agreements are negotiated is fine, with government officials acting on behalf of the citizens.</p> <p><i>Statement 2</i> We need greater openness and accountability in reaching trade agreements so that all voices can be heard.</p>	-45 (25 70)	-73 (13 86)	-67 (16 82)	-66 (15 81)	-63 (17 80)
<p><i>Statement 1</i> The current ways in which trade agreements are negotiated is fine, with government officials acting on behalf of the citizens.</p> <p><i>Statement 2</i> Ordinary citizens should be given a greater voice in our national decisions in reaching trade agreements.</p>	-37 (30 67)	-43 (28 71)	-38 (28 66)	-35 (30 65)	-38 (29 67)

Note: See previous table.

Messaging: Putting it All Together

To see how all this translates into concrete political communication, we asked respondents to react to a number of messages about trade and its effect on people and their communities (see Appendix 1 for a detailed overview of test results for all messages). The most convincing message (40% “very convincing”) claims that international trade should be welcomed but not at all cost, and admonishes the US and the EU to stand up for labour and human

rights standards to avoid a race to the bottom with a small group of corporate winners.

TABLE 6: STEER CLEAR OF THE RACE TO THE BOTTOM

"International trade contributes to prosperity and should therefore be welcomed, but not at all cost. The United States and the European Union must stand up for labour and human rights standards and protect our jobs, the environment and our children. Otherwise we'll get a race to the bottom, with jobs being moved to sweatshops in China, workers in developing countries living under abominable conditions, and the loss of our ability to protect against tainted foods. That would be a race without winners, perhaps with the exception of a small group of big businesses."					
	France	Germany	U.K.	US	All
Very convincing	41	44	35	41	40
Somewhat convincing	39	34	43	36	38
Not so convincing	15	15	12	12	14
Not at all convincing	4	5	8	10	7
Don't know	2	2	1	2	2

This message is the single one in the survey that successfully brings the trade pessimists on board. In fact, this message resonates even stronger among trade pessimists (41% "very convincing") than among trade optimists (39%). Not coincidentally, this message is the only message that brings the trade-sceptic French respondents on board. There are three driving factors behind this positive support. First, the message empowers citizens by signalling that there are (soft) limits to trade ("not at all cost"). Second, it provides hope by outlining a positive direction for the US and the EU. And third, it acknowledges the fears of people ("race without winners"), in particular trade becoming a project of big businesses.

The second most powerful message opens people's minds by acknowledging that trade has "both positive and negative effects". It then proceeds with empathetic remarks about the disruptions that

international trade can cause in workers' households. The message ends with the future-oriented policy solution in the form of investing more in innovation, skills and technology:

TABLE 7: INNOVATION

"International trade has both positive and negative effects. International trade brings a lot of benefits - lower consumer prices, more choice - but also causes a lot of disruption in millions of workers households with people losing their jobs. With the world becoming a smaller and smaller place, we need to make trade work for everyone. For us here in (COUNTRY), that means we need to invest more in skills and technology so that our economy becomes more flexible and innovative - that is where our best opportunities lie for the future."					
	France	Germany	U.K.	US	All
Very convincing	24	39	37	40	35
Somewhat convincing	53	43	46	44	47
Not so convincing	18	16	11	11	14
Not at all convincing	5	2	5	3	4
Don't know	0	0	2	2	1

This message in effect embraces trade. It is equally strong among trade optimists as the previous message (39% very convincing), but it resonates significantly less among the pessimists (just 27% – a dramatic drop of 14 points from the previous message). The message also fails to create an emotional connection with the French respondents, although it is still viewed as “convincing” by as much as 77% of the French public. The main draws of this message are the balanced view of trade (trade having both positive and negative effects), its empathetic content (disruption in millions of workers' households) and the policy vision of investing in skills, technology and innovation. This is why the message loses a lot of traction, almost exclusively among the optimists, when the statement about innovation is replaced by a more populist remark about making “trade work for everyone” (just 26% “very convincing”).

Messages designed to polarize (trade is either very good or very bad) generate less support. The message with the least support in the survey is a message that claims that enough is enough and that trade agreements should be rolled back (just 15% “very convincing”). The tone of the message is too shrill even for trade pessimists (just 20% very convincing). While this message generates little emotional traction among the publics in the four countries, it is still seen as pretty convincing in absolute terms (50% “very” or “somewhat convincing”), especially in France (61%). What this means is that such a message could still get some traction if it were launched in a communicative vacuum where nobody talks back. In a sense, one could make the case that this is precisely what has happened in the past few years.

TABLE 8: ENOUGH IS ENOUGH

“Enough is enough. You cannot expect developing countries to compete successfully with the technologically advanced economies of Europe and the United States. International trade only deepens these differences between rich and poor. That's why we should roll back some of the current trade agreements. Individual countries should be allowed to limit access to their home markets by imposing tariffs on imported products. There is nothing wrong with curbing capitalism from time to time.”

	France	Germany	U.K.	US	All
Very convincing	18	18	11	12	15
Somewhat convincing	43	24	39	32	35
Not so convincing	27	43	33	30	33
Not at all convincing	11	13	14	21	15
Don't know	2	2	3	4	3

Overall lessons

While the average citizen is not ready to take to the streets in support of a New Compact on Trade and Poverty Reduction, their opinions and openness to certain messages documented in the Trade and Poverty Reduction Survey provides a clear list of “to do’s” for thoughtful policymakers willing to create broad public support for future trade liberalisation:

- ▶ **Turn international trade into a project of the people and small businesses, not of multinationals.** Overwhelmingly, people believe that big companies are the beneficiaries of trade deals, not regular people. Whether or not that perception is warranted, it is clear that greater support for future trade deals depends on convincing the public that they and small businesses stand to gain.
- ▶ **Involve citizens.** Find ways to make citizens part of the process. Acknowledge the needs of citizens in particular when it comes to giving workers the educational opportunities they need to deal effectively with changes in the labour market. European politicians should reformulate the Lisbon agenda and turn it into a collective project that all European citizens can identify with.
- ▶ **Find creative ways to phase in developing countries.** Respondents in all four countries are equally worried about the effects of the competitive global market place on people living in developing countries. Most do not want to carry developing countries on their shoulders, and would rather see them grow and eventually compete alongside everyone else. The public will respond well to agreements that demonstrate the need for the more gradual, perhaps phased-in, exposure of developing countries to the global market. For example, one issue addressed in the survey was intellectual property rights and access to life-saving medicines. Three-quarters of respondents believe that trade rules protecting intellectual property rights should be adjusted to give developing countries better access to life-saving medicines.

- ▶ **Embrace transparency and other democratic principles.** People want to see trade agreements that reflect their faith in democracy and transparency in governance. Forty-seven percent of all respondents have an unfavourable opinion of the World Trade Organisation, believing that trade deals give institutions like it too much authority and too little oversight. Government officials must heed this concern and let more light shine on the functioning of trade institutions.

- ▶ **Be honest about the true costs and benefits of trade.** After nearly a decade of NAFTA, the European Single Market, and the World Trade Organisation, people no longer believe interest groups' and politicians' lofty promises of deeper economic ties bringing prosperity for all. In a study of all major US trade deals during four decades, the United States International Trade Commission reached a similar (if less passionate) scepticism.¹⁰ While some rhetoric is often necessary to motivate action, policymakers should always keep in mind the high cost of overstating the benefits and understating the costs of new trade deals.

Good politicians make better followers than leaders, and their cry of being boxed in over trade by public opinion demonstrates that they are not truly listening what people are actually saying. As is often the case, the public has a much keener understanding of how trade affects their everyday lives. What they are asking for is a more honest discussion of the potential benefits and costs from trade, and evidence that policy elites are willing to put aside rhetoric to develop real solutions that address the very real costs and opportunities that they see in a future that is constantly being shaped by a world growing smaller and smaller each day.

¹⁰ US International Trade Commission, *The Impact of Trade Agreements: Effect of the Tokyo Round, US-Israel FTA, US-Canada FTA, NAFTA, and the Uruguay Round on the US Economy*, (Washington, DC: United States International Trade Commission, 2003). Publication 3621.

Appendix 1: Message results

Cell entry: % “very convincing”; combined percentage “very” and “somewhat convincing” in parentheses. Messages ordered by convincingness.

	Optimists	Pessimists	All
International trade contributes to prosperity and should therefore be welcomed, but not at all cost. The United States and the European Union must stand up for labour and human rights standards and protect our jobs, the environment and our children. Otherwise we'll get a race to the bottom, with jobs being moved to sweatshops in China, workers in developing countries living under abominable conditions, and the loss of our ability to protect against tainted foods. That would be a race without winners, perhaps with the exception of a small group of big businesses.	39 (75)	41 (82)	40 (78)

<p>International trade has both positive and negative effects. International trade brings a lot of benefits - lower consumer prices, more choice - but also causes a lot of disruption in millions of workers households with people losing their jobs. With the world becoming a smaller and smaller place, we need to make trade work for everyone. For us here in (COUNTRY), that means we need to invest more in skills and technology so that our economy becomes more flexible and innovative - that is where our best opportunities lie for the future.</p>	39 (84)	27 (78)	35 (82)
<p>International trade affects the lives of almost everyone on this planet. That is why trade agreements should be discussed out in the open. Openness and transparency make for better rules and for greater accountability of the people who negotiate about these rules. That way, we would all benefit from trade.</p>	38 (84)	24 (67)	33 (78)
<p>World leaders should do all they can to help people become self-sufficient so they can take responsibility for their own lives and enjoy real prosperity. To do that, we need a fair and growing world economy - with additional jobs here in (COUNTRY), fair and increasing international trade, and aid to developing nations that is tied to accountability and real reform there.</p>	35 (83)	23 (70)	30 (78)

<p>Most recent international trade agreements work to the advantage of a narrow set of multinational companies. Developing countries barely have a voice. This must change. We need serious debt relief, deal with Africa's devastating AIDS crisis, pay active attention to the well-being of local workers and the local environment, and take measures to make sure that businesses in developing countries share in the benefits of international trade. That way, we have a real chance of making trade work for everyone.</p>	33 (80)	25 (68)	30 (75)
<p>We can talk a lot about poverty and international trade. But the fact of the matter is that developing countries should be given a fair chance to trade their products on the world market and that we should end their dependency on foreign aid by insisting on clear results for every [dollar, euro, pound] they receive in aid.</p>	31 (78)	22 (66)	28 (74)
<p>International trade has both positive and negative effects. International trade brings a lot of benefits - lower consumer prices, more choice - but also causes a lot of disruption in millions of workers households with people losing their jobs. With the world becoming a smaller and smaller place, we need to make trade work for everyone.</p>	27 (74)	25 (70)	26 (73)

<p>If you're the best in the world at something - for example farming - then you should be encouraged to sell your products not only here at home, but all across the world. The lesson of our time is clear: when nations embrace free markets, the rule of law and open trade, they prosper, and millions of lives are lifted out of poverty and despair.</p>	31 (78)	10 (43)	24 (66)
<p>The main reasons why developing countries have a hard time making progress are corruption, bad governance, war, bad schools and trade barriers. It is impossible to solve these problems over night. But a simple thing we could do is to make it easier for developing countries to trade their products on the world market by cutting western agricultural subsidies. That would bring hope and the beginning of prosperity to developing countries and would result in more choice and lower prices for consumers in Europe and the United States.</p>	25 (67)	14 (48)	21 (60)
<p>Times are different now that terrorism has become a big part of our lives. While 9/11 and the attacks in Madrid cannot be explained by poverty alone, underdevelopment is a big part of the story. We are already doing a lot like giving aid. Another thing we could do is welcoming developing countries into the international trade community. That way, they can lift themselves out of poverty and make the world a safer place. That will be in everyone's interest.</p>	24 (69)	9 (43)	18 (59)

<p>International trade is good. Competition leads to lower prices for consumers and to more choice. International trade agreements have brought great benefits to everyone; businesses have prospered, creating new, higher paying jobs. Therefore, we should continue to open our markets to competition, and encourage other countries to do so as well.</p>	22 (74)	9 (30)	17 (60)
<p>Enough is enough. You cannot expect developing countries to compete successfully with the technologically advanced economies of Europe and the United States. International trade only deepens these differences between rich and poor. That's why we should roll back some of the current trade agreements. Individual countries should be allowed to limit access to their home markets by imposing tariffs on imported products. There is nothing wrong with curbing capitalism from time to time.</p>	12 (46)	20 (55)	15 (49)

How to Market Trade in America¹

Daniel W. Drezner

Since the end of the Second World War, the United States has been the undisputed leader in creating and fostering a multilateral trading system. With each passing decade, that regime has become more open and more encompassing. This would seem to be consistent with the general perception that Americans vigorously support free trade and Europeans are more suspicious of it. However, this perception masks an unpleasant truth – Americans view international economics through a mercantilist lens. That is to say, they view trade as a zero-sum game, in which one country's gain is another country's loss, and they therefore favour free trade when they are talking about exports and protectionism when they are talking about imports. The current brouhaha over offshore outsourcing has only calcified public hostility to the merits of free trade.

Given the obvious benefits of trade liberalisation as a means of reducing global poverty,² public hostility to economic liberalisation is a growing concern. These kinds of attitudes create a powerful constraint for policymakers at a delicate moment in global trade negotiations. Completing the Doha trade round will require significant concessions by U.S. trade negotiators on contentious political issues like farm subsidies. If public opinion is increasingly hostile to trade liberalisation, the current administration – as well as future administrations – might choose not to invest significant political capital in the process.

The good news is that this is not an irreversible trend. A big reason why the American public has mercantilist attitudes towards foreign

¹ A previous abridged draft of this article appeared in *The New Republic Online*, 25 June 2004.

² For recent and cogent arguments to this effect, see Douglas Irwin, *Free Trade Under Fire* (Princeton: Princeton University Press, 2002); and Jagdish Bhagwati, *In Defense of Globalization* (New York: Oxford University Press, 2004); Martin Wolf, *Why Globalization Works* (New Haven: Yale University Press, 2004).

economic policy is that America's political leadership talks about trade in a mercantilist fashion. Fortunately, two alternative political strategies are both viable and available. First, freer trade can be married to policies designed to protect those who bear a disproportionate share of the costs that come from liberalisation. Second – and more unique to the United States – trade agreements can be justified for reasons of grand strategy as well as economic efficiency.

America's hostility to free trade

Public suspicion to trade liberalisation is not a recent phenomenon in the United States. Since the Second World War, there has been public suspicion about the merits of free trade even during boom times. In 1953—a time when the U.S. was running a massive trade surplus—a plurality of Americans supported greater import restrictions over greater import expansion.³ In 1998 – when the late-nineties boom was well under way – a majority of respondents agreed that, “foreign trade has been bad for the US economy.”⁴ Kenneth Scheve and Matthew Slaughter have catalogued a persistent fact throughout the late nineties; majorities of Americans repeatedly affirmed that: a) the costs from more imports always outweighed the benefits of more imports; and b) the costs from more imports exceeded the benefits from more exports.⁵

An iron law of trade politics is that during economic downturns, public suspicion of free trade policies explodes into public hostility. Inevitably, foreign trade becomes the convenient scapegoat for macroeconomic fluctuations that have little to do with trade. When faced with a choice between economic theories and statistical data showing that trade is good for the economy and anecdotes of job

³ The precise figure was 37% to 24%. Cited in I.M. Destler, *American Trade Politics* (Washington: Institute for International Economics, 1986), p. 5.

⁴ Kenneth F. Scheve and Matthew Slaughter, *Globalization and the Perceptions of American Workers* (Washington: Institute for International Economics, 2001), p. 21.

⁵ *Ibid.*, chapter two.

losses due to import competition, American citizens follow the anecdotes.⁶

The debates over offshore outsourcing offer a pungent example of this public opinion phenomenon at work. In the first quarter of this year, the wave of negative reporting about offshore outsourcing reached tsunami levels. There was a rash of management consultant predictions about millions of job losses, combined with less-than-stellar numbers on employment. This appeared to justify a lot of hand wringing about offshore outsourcing and its potential effects on employment. The Democratic presidential primary also promoted a lot of talk about the evils of free trade, with John Kerry topping things off by bashing “Benedict Arnold CEOs.”

Given this type of political environment, it is not surprising to find that a majority of Americans believe that offshoring is a problem. An Associated Press Poll in May 2004 found that 69 percent of Americans believe outsourcing hurts the U.S. economy. An Employment Law Alliance poll taken the same month found that 58 percent of American workers believe that the federal government should penalize companies that offshore work. A Watson Wyatt survey a few months later found 85% of American workers believing that offshoring has a negative effect on the U.S. economy.⁷

These attitudes are part of a broader trend towards protectionism among Americans. Between 1999 and 2004, public support for free trade declined across the board. The most dramatic shift in opinion came from Americans making more than \$100,000 a year, among whom support for promoting trade dropped from 57 percent to 28 percent. A July 2004 poll conducted jointly by the Pew Research Center and the Council on Foreign Relations found that 84% of Americans thought protecting the jobs of American workers should

⁶ Daniel W. Drezner, “The Outsourcing Bogeyman,” *Foreign Affairs* 83 (May/June 2004): 22-34.

⁷ Employment Law Alliance, “Offshoring: Mad in the U.S.A.,” 7 June 2004. Accessed at http://www.employmentlawalliance.com/pdf/ELA_Offshore_Outsource_Poll_D1_5_25_04.pdf, 6 August 2004; the Associated Press poll can be accessed at <http://www.ipsos-na.com/news/pdf/media/mr040607-1tbzzz.pdf>. Watson Wyatt, “Offshoring Labor,” 5 August 2004. Accessed at http://biz.yahoo.com/prnews/040805/phth035_1.html, 10 August 2004.

be a top priority of American foreign policy. The same month, the German Marshall Fund (GMF) poll concluded that *only four percent* of Americans supported the North American Free Trade Agreement (NAFTA). Americans are also less enthusiastic toward further international trade deals than Europeans. A high proportion of Europeans – 82% of French and 83% of British – want more international trade agreements, compared to just 54% in the US.⁸

This does not mean that the public is correct in its views on trade or offshore outsourcing. In June, another AP poll found that 57% of respondents believed the nation had lost jobs in the last six months, even though 1.2 million jobs had been created during that span. As for offshoring, the Bureau of Labour Statistics reported in June 2004 that this phenomenon was responsible for less than 2.5% of jobs lost through mass layoffs in the first quarter of this year -- not exactly a large number.⁹ Studies at the state and local level buttress this finding. In Colorado, one study found that to date offshoring's impact on IT jobs was exaggerated by media reports. In Detroit, another study concluded that outsourcing's effect on manufacturing jobs had been "overemphasized."¹⁰ The net creation of over a million new private-sector jobs since January has also demonstrated that the effect of offshoring on the national economy is insignificant.

Given the widespread support among economists for trade liberalisation, are Americans just stupid? Not really -- they're merely responding to how politicians talk about the topic. Both advocates and opponents of freer trade talk about the issue in a mercantilist framework. Politicians commonly address trade by discussing how

⁸ Shift in public opinion reported in Peronet Despeignes, "Enthusiasm for Free Trade Fades," *USA Today*, 24 February 2004, p. A1. Pew/CFR survey available at <http://www.cfr.org/pdf/CFRPEW.pdf> (accessed 1 September 2004); John J. Audley and Hans Anker, *Reconciling Trade and Poverty Reduction* (Washington: German Marshall Fund of the United States, July 2004).

⁹ Bureau of Labor Statistics, "Extended Mass Layoffs Associated with Domestic and Overseas Locations," 10 June 2004. Accessed at <ftp://ftp.bls.gov/pub/news.release/reloc.txt>, 6 August 2004.

¹⁰ Manuel G. Serapio, "IT's not so Bad," *Rocky Mountain News*, 5 June 2004; Detroit Regional Chamber, "Impact of Offshore Outsourcing on the Manufacturing Sector in Michigan and the United States," June 2004. Accessed at <http://www.detroitchamber.com/MPC/>, 6 August 2004.

changes in policy will affect the trade deficit, with the implicit understanding that it is better to run a trade surplus – even though there's no correlation between the balance of trade and national income. Debates about trade inevitably revolve around the question of jobs – even though trade has a minimal effect on aggregate levels of employment. A decade ago, the political debates over NAFTA were framed in terms of job creation and job destruction, despite the fact that every sober policy analysis concluded that NAFTA would not significantly alter the employment picture.¹¹

Even politicians who advocate trade liberalisation do so by focusing on increasing American exports and downplaying imports.¹² This ignores the fact that trade is not a zero-sum game; the gains of other economies can also benefit our own. For instance, imports help to lower consumer prices and increase consumer variety. Former Treasury Secretary Robert Rubin observed in his memoirs that when he mentioned this fact in Congressional testimony, a representative told him that he was the first government official to praise the virtues of imports in public. He concluded, “My many discussions with senators, House members, and others... have led me to believe that what is needed is a large-scale, multi-year public relations and education campaign in support of both foreign assistance and trade liberalisation for developing-country exports.... So far, my arguments have been without effect.”¹³ With this kind of political environment, it should not be surprising that Federal Reserve Bank of Dallas president Robert McTeer, when asked in early 2004 about policy

¹¹ Paul Krugman, “The Uncomfortable Truth About NAFTA,” *Foreign Affairs* 72 (November/December 1993): 13-19; Gary Hufbauer and Jeffrey Schott, *NAFTA: An Assessment* (Washington: Institute for International Economics, 1993).

¹² For example, a key plank of John Kerry's trade platform is devoting greater resources to “increase resources for trade enforcement and action at the World Trade Organization.” See “A Plan For Free And Fair Trade,” at <http://www.johnkerry.com/issues/economy/trade.html>, as well as, “Trade Enforcement: Asleep at the Wheel,” at http://www.johnkerry.com/pdf/trade_enforcement.pdf.

¹³ Robert Rubin and Jacob Weisberg, *In an Uncertain World* (New York: Random House, 2003), p. 400.

responses to outsourcing, replied, "If we are lucky, we can get through the year without doing something really, really stupid."¹⁴

Breaking the mercantilist mindset

Unless the entire country -- particularly the political class -- is required to take an introductory economics course, the mercantilist mindset will be hard to shake. Politicians have promoted trade through a mercantilist lens since the early days of the Republic, and for good political reasons. Couching trade expansion as a means of boosting exports evokes a sense of economic nationalism that has long been popular with voters.¹⁵ Furthermore, jobs created through exports represent the kind of tangible, direct anecdotes preferred by politicians seeking re-election. The problem is, anecdotes are incomplete narratives that fail to include opportunity costs. The opportunity costs of jobs saved through trade barriers are jobs lost in sectors rendered less productive by higher input prices -- not to mention higher consumer prices, a lower rate of return for investors, and reduced incentives for innovation. Trade protectionism amounts to an inefficient subsidy for uncompetitive sectors of the economy. For politicians, however, anecdotes and narratives will always be more compelling than economic theory.

At this point, most laments about the state of political discourse of trade end with a call for politicians to bravely resist the siren song of protectionism. This is not of much use. Politicians are, well, politicians -- they will be understandably reluctant to buck the beliefs of large swathes of constituents. In November 2002, George W. Bush slapped on steel tariffs when his approval rating was at 85%, despite substantial opposition from his principal economic advisors.¹⁶ Why should it be expected that Bush -- or any president,

¹⁴ Quoted in Bloomberg, "Delta Air, General Electric Say Creating Jobs Abroad Helps U.S.," 23 February 2004.

¹⁵ For one exploration of this, see the discussion of Hamiltonian foreign policy in Walter Russell Mead, *Special Providence* (New York: Knopf, 2002), chapter four.

¹⁶ Ron Suskind, *The Price of Loyalty* (New York: Simon & Schuster, 2004), p. 216-221.

for that matter – would suddenly be willing to speak truth to power on trade when their approval ratings are below 50%?

Rather than exhorting politicians to be brave, advocates of free trade need to provide concrete strategies that resonate with the public. For the United States, there are two viable strategies – and they are not mutually exclusive. The first is to marry trade expansion with programs designed to help those made worse off from an open economy. The second is to link trade policy to the promotion of America's grand strategy.

The chief problem with boosting public support for trade liberalisation is not one of economics but psychology – people *feel* that their jobs and wages are threatened. This fear is not irrational for risk-averse Americans. Even if the probability of losing one's job from import competition or offshore outsourcing is less than three percent,¹⁷ the costs of losing one's job are great enough to provoke concern. This is a classic insurance problem – the key is to guarantee the losers that they will be covered.

This kind of insurance problem is amenable to government assistance. One obvious move would be to expand the Trade Adjustment Assistance (TAA) program in the United States to cover service sector positions, as well as retooling the TAA program to provide more transferable skills for workers. The creation of portable retirement accounts and health-care benefit packages would further cushion the blow of trade-related unemployment.¹⁸ Additional investments in public goods like basic science and ongoing education would increase the attractiveness of American workers as well. Furthermore, such investments would not be expensive – precisely because the number of affected workers is far smaller than commonly thought.

The private sector can also invest in targeted insurance policies to

¹⁷ Schultze; BLS

¹⁸ Douglas Irwin, "Free Trade Worriers," *Wall Street Journal*, 9 August 2004.

offset the transition costs to workers directly affected by foreign competition. IBM represents an exemplar of this kind of practice. In late 2003 the firm announced plans to offshore 3,000 IT jobs from the United States, prompting considerable criticism from employees and commentators – even though the firm also planned a net increase in employment in the United States. In response, the firm announced the creation of a two-year \$25 million retraining fund for its employees who fear job losses from outsourcing. It also created new internal transfer policies that encouraged managers to retrain and hire IBM employees affected by outsourcing, reducing the estimated number of displaced workers by 33%.¹⁹ The McKinsey Global Institute estimates that programs like these could be created for as little as four to five cents per dollar saved from trade expansion and offshore outsourcing.²⁰

Undoubtedly, such policies would help to foster public support for trade expansion. The GMF poll found the following statement generated 71% approval among Americans, and roughly equal support from trade optimists and trade pessimists:²¹

International trade has both positive and negative effects. International trade brings a lot of benefits -- lower consumer prices, more choice -- but also causes a lot of disruption in millions of workers' households with people losing their jobs. With the world becoming a smaller and smaller place, we need to make trade work for everyone. For us here in the United States and Europe, that means we need to invest more in skills and technology so that our economy becomes more flexible and innovative -- that is where our best opportunities lie for the future.

¹⁹ Stacy Cowley, "IBM Starts Fund to Aid Displaced Workers," *ComputerWorld*, 2 March 2004; William M. Buckley, "IBM Now Plans Fewer Layoffs From Offshoring," *Wall Street Journal*, 29 July 2004.

²⁰ McKinsey Global Institute, "Offshoring: Is It a Win-Win Game?" San Francisco, CA, August 2003

²¹ *Reconciling Trade and Poverty Reduction*, p. 26.

This logic echoes recent statements by Federal Reserve Chairman Alan Greenspan on coping with the global economy.²²

The second way to improve public attitudes towards trade is to stress its importance to foreign policy as well as economic welfare. One of the reasons the United States government persistently advocated for trade liberalisation during the Cold War era was the bipartisan consensus that a liberal trading system aided the cause of containment.²³ As historian Diane Kunz has observed: "Economic diplomacy served as America's first line of offense in the Cold War."²⁴ There was another reason, however – advocates of trade liberalisation knew that the security linkage was an effective tool in coping with protectionist pressures.²⁵

Current American policymakers are cognizant of the connection between trade and grand strategy. The 2001 National Security Strategy contains the following:²⁶

[T]he United States will use this moment of opportunity to extend the benefits of freedom across the globe. We will actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world. The events of September 11, 2001, taught us that weak states, like Afghanistan, can pose as great a danger to our national interests as strong states. Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions,

²² Alan Greenspan, "The critical role of education in the nation's economy," 20 February 2004. Accessed at <http://federalreserve.gov/boarddocs/speeches/2004/200402202/default.htm>, 6 August 2004.

²³ Destler, *American Trade Politics*, chapter one; Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca: Cornell University Press, 1993), p. 164.

²⁴ Diane Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: The Free Press, 1997), p. 5

²⁵ Thomas Zeiler, "Managing Protectionism: American Trade Policy in the Early Cold War," *Diplomatic History* 22 (Summer 1998): 337-360.

²⁶ National Security Strategy of the United States – accessed at <http://www.whitehouse.gov/nsc/nssall.html>, 6 August 2004.

and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders.

The security rationale is behind the administration's exertions on behalf of the Doha round, as well as President Bush's May 2003 announcement to create a U.S.-Middle East free trade area by 2013. The current U.S. Trade Representative Robert Zoellick has been pushing this line of argumentation since the September 11th attacks – on September 20th, 2001, he argued:²⁷

Economic strength -- at home and abroad -- is the foundation of America's hard and soft power. Earlier enemies learned that America is the arsenal of democracy; today's enemies will learn that America is the economic engine for freedom, opportunity and development. To that end, U.S. leadership in promoting the international economic and trading system is vital. Trade is about more than economic efficiency. It promotes the values at the heart of this protracted struggle.

Despite this recognition, this type of strategy requires the active participation of the only official with a large enough bully pulpit to move public opinion – the president.

The GMF poll shows that this line of argumentation is convincing to more than 58% of Americans – a strong but not overwhelming number. However, the poll question, as phrased, failed to make the necessary link between current economic statecraft and future military statecraft.²⁸ Despite (or because of) its status as the global military hegemon, the U.S. is currently overcommitted in its overseas

²⁷ Robert Zoellick, "Countering Terror with Trade," *Washington Post*, 20 September 2001, p. A35; see, more recently, "When Trade Leads to Tolerance," *New York Times*, 12 June 2004.

²⁸ The question was: "Times are different now that terrorism has become a big part of our lives. While 9/11 and the attacks in Madrid cannot be explained by poverty alone, underdevelopment is a big part of the story. We are already doing a lot like giving aid. Another thing we could do is welcoming developing countries into the international trade community. That way, they can lift themselves out of poverty and make the world a safer place. That will be in everyone's interest."

deployment of military personnel.²⁹ Trade expansion can and should be presented as part of a long-term solution to prevent additional uses of force in the future. Contrary to the conventional wisdom, polling in the nineties suggests that this argument resonates with a broad majority of the American public.³⁰ The aforementioned Pew/CFR poll showed that the only foreign policy issue considered more important than protecting jobs was protecting against terrorist attacks. Tying trade to security prevents protectionist politicians from using economic nationalism to advance their arguments, indirectly reducing public support for higher trade barriers. As with the Cold War, a strategy that markets economic diplomacy as “America’s first line of offense” would be effective in blunting protectionism and promoting liberalisation.

Conclusion

Advocates of trade expansion often feel like they are stuck in a public policy version of *Groundhog Day*, forced to refute the same fallacious arguments decade after decade.³¹ Educating the public about the benefits that come with trade is a noble and worthwhile effort – but alleviating the public’s anxieties will work even better. In the United States, this boils down to two strategies. First, marry the case for trade expansion with a similar expansion of insurance programs to cushion those who lose out from greater market competition. Second, emphasize that the benefits of liberalisation positively affect international security as well as the global economy.

²⁹ On the greater willingness of the United States to rely on force, see Robert Kagan, *Of Paradise and Power* (New York: Alfred A. Knopf, 2003).

³⁰ See Steven Kull and I.M. Destler, *Misreading the Public: The Myth of a New Isolationism* (Washington: Brookings Institution, 1999), chapters two and five.

³¹ Julian Sanchez, “Lou’s Blues,” *Reason*, 30 October 2003. Available at <http://reason.com/links/links103003.shtml>.

French are Normal Earthlings

Patrick Messerlin

The German Marshall Fund's Trade and Poverty Reduction Survey, which serves as the background to this paper, is a breath of fresh air for the handful of French pro-liberalisers. It shows how overall French people are in line with the economic analysis which supports trade liberalisation and that, in this respect, they share similar attitudes to those of their counterparts in other countries surveyed: 83% of the French 'strongly or somewhat favour' international trade, only marginally less than the Americans or the British (87%) and the Germans (89%). The survey would therefore suggest that, despite the commonly held assumption about French hearts and minds, most of the scepticism about trade liberalisation emanates from the French political class and not the general public as is often claimed—particularly by French politicians and the media.

Critics of this result may claim that the crushing pro-trade majority is not a true reflection of public opinion, but the result of the terminology used in the poll. But clearly this is not the case. Whether the question posed was about 'free trade' or 'fair trade', the result was always a strong majority in favour, even if (as one should expect) the results are more favourable in the case of 'fair trade': opinions favourable to fair trade exceed those unfavourable to it by 54%, the corresponding margin being 33% in case of 'free trade'. Furthermore, this survey comes in the wake of a number of similar exercises, such as the one published by Pew Poll in September 2003 which showed that 88% of the French thought that international trade had a 'very or somewhat good' impact on the country.

Interestingly, this GMF survey which shows strong support for freer trade among the French also reveals a majority opposed to globalisation: 54% of respondents had a 'very or somewhat unfavourable opinion of globalisation' (not so different from the other

countries polled, see below). Once again, these results echo those of the Pew Poll.

How can one explain this significant difference between French perceptions of international trade and perceptions of globalisation? Clearly, the perception of globalisation goes beyond the realm of trade. Capital “crises,” “evil” multinationals, workers from “poor” nations, “immigration,” and cultural “uniformity” are all much more readily invoked by the term globalisation—often without much cause. (Can one really think about a more diverse culture than the one existing today in each of the four countries polled?). An average French person travelling abroad may feel threatened by the fact that CNN controls the hotel room air waves, and he or she may feel a greater degree of discomfort about the fact that French brands are rare abroad.

In sum, the word globalisation is imbued with a sense of unfamiliarity, uncertainty, and fear—and the media does its best to magnify these feelings. By contrast, international trade ships anonymous goods (who really pays attention to the origin of the products, not to mention their components?) and often gives to products the reassuring face of well-known local brands. Bearing these facts in mind we can explain why the German opinion on globalisation is so close to the French one (51%), and why the British (35%) and the American (29%) opinions are more reassured, but not totally confident.

This explains why a majority of the French are opposed to the process of globalisation, while most of them support freer trade which appears as a less aggressive form of opening their country to the rest of the world. Interestingly, the clear preference of French people for trade liberalisation illustrates a well-known point of economic theory which shows that a full liberalisation of trade in goods and services can be a perfect substitute for the movement of people and capital.

Furthermore, the trust of French people in free trade agreements flows from France’s very unique experience of the European endeavour. So far, the European Union (EU) has been built on

countries with similar income levels. Competition between similar economies is often more acceptable than competition between very different economies—it is a competition over niches, not over entire sectors. In this respect, the French (European) experience with Europe is—so far (see below)—very different from the one of the U.S. with NAFTA.

From Anti-globalisation to Alter-globalisation

The French anti-globalisation movement is rooted in two nostalgias—nationalist and communist (since the 1990s, many former voters for the Communist Party give their votes to the ‘Front National’). Hence, it combines a strong opposition to capitalism and deep fears of the rest of the world. Moreover, in current French politics, a government almost always relies on a loose coalition, grabbing and keeping power essentially by splitting the adverse camp—a socialist President can only survive with a divided right and a conservative President with a divided left. As a result, the French anti-globalisation movement has always be seen as a (rather blatant) “ally” to all governments in power—the nationalist branch being courted by socialist governments and the post-communist branch by conservative governments. Last but not least, the anti-globalisation movement benefits from a final source of strength—the extreme weakness of French governments over the last two or three decades, particularly their extreme vulnerability to demonstrations (even minor ones).

In this context, the GMF poll has great merit. It shows that, although the anti-globalisation movement is often presented as the voice of the people (the “civil society”), it is not representative of public opinion. The finding that the average French person is broadly supportive of free trade, but opposed to the free movement of people contradicts the messages coming from anti-globalisation protesters who are both strongly and manifestly opposed to trade liberalisation (which they portray as the source of exploitation) and at the same time champion the freedom of the movement of people — a nostalgia of the “Workers’ International” [*Internationale des Travailleurs*]. During the demonstrations outside the G8 summit in Genoa, one of the protesters accurately summed up this initial anti-

globalisation agenda: “Closing down borders to foreign goods, welcoming foreign workers with open arms” (the first element from nationalism, the second one from international proletariat).

This opposition between the French general attitude and the early anti-globalisation movement has been so complete that most anti-globalisers have changed their mind on the issue of trade—indirectly confirming the GMF poll results. Anti-globalisers now say that they want “another form of globalisation”—hence, their new nickname of “alter-globalisers” (*alter* meaning other). As is the case of all idealistic thought, alter-globalisation shuns clear definition beyond the fact that it stands in opposition to the current situation.

The incoherence of French politics

French politicians—from both left and right—rarely act more coherently than the anti-globalisers. While no French politicians dare to come out in defence of freer trade, they support greater European integration, failing to recognize that a vote in favour of the EU is ultimately a vote in favour of free trade and globalisation. Indeed, in many ways, the position of France’s political class is a mirror image of the position of the British one which remains confident about openness to global trade, but sceptical about deepening European integration. The French politicians’ inconsistency has been made easier by the fact that, during the last decade or so, France has been trading more with her European partners (especially the other large EU member states), and less with the rest of the world—in other words, she has been increasingly (relative to the other EU member states) less connected with the rest of the world, and more with the rest of the EU.

However, the tension between French politicians’ support for European integration and their scepticism about global trade will come to the fore with the accession of ten new member states to the EU, and with the debate on the European Constitution (as indeed illustrated by the “no” of certain French politicians to the Constitution on the basis that it is too “liberally” minded).

The fact that Europe is now more heterogeneous than ever before means that the EU is rapidly looking more like the rest of the world, and less like the Europe the French have been accustomed to (or dreamed about). This threatens to spread the negative views of the French towards globalisation to the European endeavour itself. Twelve of the pre-2004 EU member states have an average GDP per capita of \$20,000 or more, while the GDP of the three others (Greece, Portugal and Spain) range from \$12,000 to \$15,000 (all these figures are in constant US dollars for 2001). By contrast, the bulk of the ten new member states have a GDP per capita of roughly \$7500, a situation close to NAFTA where the Mexican and U.S. GDP are, respectively, \$7,100 and \$28,000.

In sum, whereas once the EU resembled the free trade zone between the US and Canada, growing inequality between European member states means that it now looks increasingly like NAFTA. This may have a severe impact on French public opinion. But possibly and more importantly, it could expose the incoherence of French politics on matters relating to free trade. As free trade with Lithuania (per capita GDP of \$7,200) becomes a reality, the hypocrisy of France's refusal to accept freer trade with (say) Thailand (per capita GDP of \$6,400) or Argentina (per capita GDP of \$8,200) is exposed.

This situation is not totally new. It arose briefly in the mid-1990s when certain French politicians suggested that France should no longer trade with countries where wages were 'too low'. This discussion quickly fizzled out after critics of the proposal pointed out that some of the countries in question in fact had higher wages than Portugal, an EU member state which enjoyed full access to the French market. That France today trades with even poorer EU member states will make it much harder for politicians to justify protectionist policies which affect trading nations outside Europe.

France's challenge is not solely ideological. Its political system makes it unprepared to deal with the fact that trade liberalisation and globalisation bring about costs in the short term and profits only in the long term, as stated in the introduction to this tome. Historically, only two French leaders have been able to make clear-cut choices in

favour of trade liberalisation: Napoleon III (in 1860) and General de Gaulle (in 1958, right at the beginning of his first presidency). Both shared the same crucial feature: they were confident of being in power for a long period to come—hence they could take the risk of short term adjustment costs, while betting on long term benefits.

Since 1981 France has alternated between and left and right wing governments every three to four years, with the President and the Prime Minister often from opposite sides. As a result, it has been impossible for governments to take a clear long term direction when it comes to economic policy in general, and trade issues in particular. New governments have found themselves unable to introduce reforms soon after being elected into power because often these would have contradicted their electoral promises. They have governed by proxy, relying on the other EU governments for opening the French economy and adopting a ‘sneaking liberalisation.’”

Rays of hope?

Hope may first come from the constitutional framework. Since 2002, the presidential mandate has been shortened from seven to five years—a change which, at a first glance, goes in the wrong direction of a bias to short termism. Fortunately, things are more complicated. The presidential mandate is now aligned to the parliamentary mandate, and parliamentary elections follow the presidential ones. As a result, French voters are likely to elect a Parliament of the same coalition as the President— thus offering five years of government to the winning party. The French regime is thus closer to the British or German ones, although the clear definition of who is in charge is not guaranteed, but will depend on the French voters’ wisdom.

Within a better institutional framework, French politicians may evolve more easily. Other forces will help them to do so. First, an increasingly large share of French elites is exposed to the non-EU world, both in business and in public affairs. They are finally realizing the decline of French influence, and they are reacting to it by adopting more balanced views on the role of the state, of private enterprises, and of markets. Indeed, it will be interesting to see how

much French and British elites will educate each other in this painful exercise of recognizing the loss of their respective influences (for Britain, this exercise is not about economics, but about political matters, and particularly about British influence on the U.S. foreign policy).

Second, freer trade is often defended on the grounds of market efficiency. This approach is correct, but it is partial—and it is particularly hard to sell in a country so attached to state power. Fortunately, there is another argument: freer trade is the strongest force for eroding or eliminating the existing vested interests—an argument which fits well the French obsession with inequality and with the struggle of the people against the establishment (indeed this was the major argument adopted by Napoleon III).

In sum, politicians could start making the case for liberalisation as follows. Contrary to what many French (and non-French) people believe, trade liberalisation does not favour the strong, and protectionism does not protect the weak. Rather, by eroding the entrenched private interests, trade liberalisation favours the emerging groups choked by the existing social forces. This is not surprising. Protectionism is inevitably much more shaped by pressure from the powerful than by pressure from the small. By fighting against economic rents of all kinds with the help of freer trade (the motto of the 1958 liberalisation), governments work in pursuit of the interests of people too weak to be heard and for the common good of the nation

This is certainly a difficult message to convey. Hence, it is not surprising that a government flaunting the benefits of freer trade would be sometimes forced to retreat from its position, and make a compromise with protectionist forces. But this kind of hypocrisy is more 'virtuous' (in the sense that it looks to guide the country in the right direction) than the hypocrisy of the current French politics—where the absence of political courage amounts to a total surrender of governments to the existing most powerful interests, while giving the impression that it takes care of the least powerful people. If there is a need to illustrate this concluding remark, look at agriculture.

How long can the UK remain a beacon for free trade?

Michael Wills MP

In a country where politics has frequently been driven by suspicion of foreigners and whose economy was characterised until very recently by relative decline, logic might suggest that protectionist sentiment would be strong and that politicians would shun the challenges of freeing trade. Yet the German Marshall Fund survey finds that in the United Kingdom only 15% had an unfavourable opinion of free trade compared with nearly double that figure in France and Germany and 20% in the United States of America.

On reflection, it is not really that surprising that Britain is a beacon for free trade. An island nation is always likely to be relatively open to the outside world. And the United Kingdom particularly depends on trade. 41% of its GDP is accounted for by trade compared, for example, with only 19% in the USA.

Indeed, it was the British Enlightenment of the eighteenth century which gave birth to modern theories of free trade and the symbol of their triumph over protectionism came with the repeal of the Corn Laws in 1846. And in recent years, the UK government has been prominent in promoting the liberalisation of international trade. It has led calls for the completion of Europe's Single Market and for further radical reform of the protectionist Common Agricultural Policy and it has worked energetically to keep the WTO Doha Round of trade talks alive. And there is a broad intellectual and political consensus on the virtues of trade liberalisation.

But none of this can be taken for granted. For all the academic and intellectual dominance of free trade theories, they remain remarkably difficult for politicians to put into practice. The repeal of the Corn Laws may have been a symbolic triumph but, in a rapidly urbanising

country, where millions more stood to gain from cheaper food than stood to lose from the removal of subsidy, it still took years of vigorous campaigning to achieve it and the struggle destroyed the Conservative Party for a generation and protection continued to dominate British politics until the First World War.

The lesson of the nineteenth century's politics of protection still applies. Most people inherently feel more insecure than secure and change is always worrying. And those who suffer from the loss of protection will suffer from change immediately and directly while it will take longer for those who benefit, even though they may be far more numerous, to see the benefits which may also be more diffused.

The difficulties of getting rid of Europe's Common Agricultural Policy exemplify the problem. It costs the average British family of four £400 a year, consuming half the EU budget to support 4% of the EU population, dragging down standards of animal welfare through the intensive farming methods it has fostered, and devastating the world's poor, costing them around \$20 billion a year by shutting them out of rich European markets. It has not even been fair to the European farmers it is meant to protect with the largest 2% of farms receiving 24% of all direct payments. And yet it has continued decade after decade, because in the council chambers of Europe, the voices of those who benefit drown out those European consumers and developing countries who pay the cost. And, for all the progress made in recent reforms, this iniquitous policy looks set to continue for some years still.

There are further political challenges. Many who may be persuaded of the theoretical merits of free trade nevertheless fear that the process of implementing it will unfairly benefit the rich and powerful and damage the poorest and most vulnerable countries.

The prize held out by further trade liberalisation is considerable. Estimates from by the Tinbergen Institute, for example, suggest that a 50% cut in applied industrial tariffs by all WTO countries could yield gains of just under \$200 billion a year. But achieving this is a

complex challenge: politically there are powerful vested interests to overcome and there are difficult technical issues to tackle.

No further liberalisation will deliver all it should unless it recognises that the world's poorest countries face particular challenges in surviving the immediate shock of change as their economies expose themselves to competition. Public finances in the poorest countries often depend on tariffs. In sub-Saharan Africa, for example, up to 50% of public revenues are derived from tariffs and no reforms should suddenly remove such a crucial shelter for some of the world's most vulnerable people.

Some of the poorest countries already benefit from preferential access agreements, such as those the EU has given the African, Caribbean and Pacific (ACP) countries, and any generalised change must be careful not to disadvantage those countries. The lack of diversification in many of the poorest countries - in Bangladesh, for example, around 50% of the industrial workforce is employed in textiles - makes it difficult for them immediately to seize the benefits of liberalisation. And help will be needed for those of the world's poor who will find it impossible to benefit directly from liberalisation in the short-term. Some developing countries, such as Egypt, Pakistan and Kenya, are net importers of food and benefit from the export subsidies rich countries give their farmers. The urban poor in developing countries who buy food and do not grow it could well be hurt by higher food prices in the short term, no matter what the long term boost to their national economies from trade liberalisation.

This means there must be special and differential treatment for the poorest countries in the process of opening up of the world economy while, at the same time, ensuring this is not used as an excuse for the indefinite retention of protectionism. This will be a difficult balance to strike and part of the solution lies, in my view, in establishing deeper systemic links between liberalisation and aid. The world's poorest countries need to be given specific help in developing their infrastructure to help them compete effectively. Liberalisation of the EU's sugar regime, for example, could mean that large efficient producers such as Brazil might benefit dramatically but smaller, poorer developing country producers, such

as Mozambique, might lose out. But if EU countries were to invest, for example, some of the money they save from scrapping the CAP sugar regime into providing better transport between sugar plantations and the port in Mozambique and in modern loading facilities at the port, all other things being equal, that could help make Mozambique compete effectively without need for a continuing subsidy.

There are also considerable challenges in ensuring that the process of liberalisation maximises the benefits. In my view, there is little imminent danger of a new protectionism taking hold. But there is a risk of insufficiently rapid progress on liberalisation and the growth of a new bilateral approach to it. Worryingly, there appears to be new diplomatic interest in the United States and East Asia in bilateral deals distinguishing between what Robert Zoellick has called 'can do countries' and 'won't do countries'.

While not as alarming as resurgent protectionism, such an approach could nevertheless pose considerable problems. A global trading system based on bilateral deals is inevitably deeply complicated and, as such, works against the efficient allocation of resources which won't necessarily flow to the most efficient global location but rather to the best regional deal. And this could create escalating inefficiencies, clogging growth.

Regional deals can be an effective bridge towards multilateralism but they can also act as barriers to further liberalisation with most protectionist members holding back the rest, as has happened with the EU's stubborn adherence to the Common Agricultural Policy.

And in any bilateral deal, there is always a risk of the more powerful partner skewing the deal to exploit the weaker one. In theory any deal which opens up markets benefits the economy opening up; so if a dominant partner insists on unbalanced access, it need not disadvantage the weaker partner. But, in practice, the full benefits of liberalisation will be only gained by fully opening up the dominant country's markets as well and failing to do so is not only unfair, it also fails to optimise the benefits of liberalisation.

The risks of a new bilateralism are exacerbated by deep-seated tectonic shifts in the world order. Successor generations have now securely replaced the generation of post-war leaders. Their memories are not of the devastation wreaked by protectionism in the 1930s but of mid-twentieth century prosperity. And gone with those post-war leaders has been the licence given to political elites by democracies to negotiate multilateral deals to free trade.

The emergence of the United States as the world's only superpower, and the appetite of the Bush Administration to exploit this position has created further instability in multilateral diplomacy, deepened by a new sense of empowerment among the biggest developing countries. India, China and Brazil are increasingly unwilling to accept deals they feel are prejudiced against them. And the EU's ability to act as a broker for multilateralism faces new challenges with its historic enlargement to twenty five members.

These changes require politicians to be statesmen if they are to drive multilateral trade agreements forward and they are going to be more ready to adopt such a strategic vision from a secure domestic base. Mobilisation of popular political opinion will be crucial in securing further progress. Last year Robert Zoellick was keen to boast of solving the 'difficult question of access to medicines under the intellectual property rules' - but it is hard to believe that this would have been possible without the domestic political interest in the United States and European countries in this highly emotive issue.

British politicians are being helped in this task by a shifting moral consciousness. Voters have rarely been motivated by self-interest alone. Moral passion has often been a powerful political force and the dimensions of this commitment are, I believe, changing. Compassion is usually expressed as a generalised sentiment. But when it comes to turning it into a practical reality, making hard choices about the allocation of resources, the moral sense of voters is more complex than much of the discussion about it appears to recognise. The sense of moral compassion and obligation is usually most powerful when it is most close. It tends to be strongest for family, other loved ones and immediate neighbours.

It has always been harder to motivate people systematically about the plight of people a long way away. But there is increasing evidence that this is changing. The world today is far more open than ever before; people travel far more and television brings the rest of the world into the living room. The famous image of the world, taken from the moon thirty five years ago, symbolised a new global sense of community, flowing from a shared sense of being marooned on a little planet, adrift in space. Twenty years ago, Band Aid and Live Aid, launched a new wave of global compassion which has been regularly reawakened since then. More recently, growth of fair trade sales suggests that ethical considerations can influence the decisions people take about consumption.

However, important as this shift may be, it does not yet represent a new politics. It is still too episodic. NGOs continue to wrestle with the problems of compassion fatigue and if supermarkets were convinced there really was a mass market for fair trade products it would be rather easier to find them on the shelves.

The usual political reaction when compassion is found wanting as a driver of change is to look to self-interest. But interestingly, the German Marshall Fund survey found little evidence that people are convinced by the arguments politicians most frequently advance in this way. Arguments that making poorer countries more prosperous through trade liberalisation would deal with the problems of illegal immigration and international terrorism do not appear to be overwhelmingly persuasive with voters.

The German Marshall Fund survey found, for example, that only around 1 in 5 people in the UK thought that the argument that poverty creates breeding grounds for terrorism was a very good reason to fight poverty in developing countries. And only around 1 in 5 people thought that the argument that it would help open up new markets for our products was a very good reason to fight poverty in developing countries.

There is clearly no one silver bullet to solve all these challenges. A complex response is needed to a complex problem. But fundamental

to entrenching political support for the liberalisation of trade, I believe, is generating the self-confidence about meeting the challenges of change.

My constituency, Swindon, is a prosperous town, a successful manufacturing town and a town with world-class financial services and distribution facilities. It is a town of migrants, created in its modern form out of a small Wiltshire settlement by the great engineer Isambard Kingdom Brunel, who decided to locate his railway workshop there half way between London and Bristol on the Great Western Railway. Workers were drawn in from all over the country and even today only 10% of the population were born there. As migrants, Swindonians have always been used to meeting the challenges of change and that flexibility makes the town highly attractive to employers.

A few years ago, one large local employer was faced with a significant downturn in the global market for its products and was forced to make significant redundancies. When the first wave of redundancies was announced, I visited the plant to talk to the workers about their concerns. They were most worried not about their jobs but about local farmers suffering from the recent outbreak of foot-and-mouth disease. For the most part, they had readily accepted that they would get a new car or an expensive holiday from the redundancy package and then find a new job from among the many available in Swindon's booming economy. There was no anger or despair. This was the way things were. The message is simple and obvious. If people feel confident about the future, they will welcome change as an opportunity not fear it as a threat. And creating that confidence is the key to seizing the benefits of liberalisation and Britain remaining a beacon of free trade.

It is surely not coincidental that the positive British attitude towards trade liberalisation is accompanied by a relatively high degree of optimism about the future. The German Marshall Fund survey found that 45% of people in the UK were satisfied with the way things were going, compared with 32% in the USA, 29% in France and only 17% in Germany. And that relative satisfaction in turn is founded on the

basis of the longest period of sustained growth and increases in personal prosperity in living memory.

Change is always easier when times are good and however encouraging the findings of the German Marshall Fund might be for British politicians, we can take nothing for granted. The task remains, as it always has been, to create the conditions for stable and sustained economic growth and on the back of that to work for an increasingly open and just international trading order.

Trade, public opinion and the German paradox - how to convince the sceptics

Erika Mann MEP

Introduction

Germans perceive their country as the "world champion in exports". No wonder that the poll of the German Marshall Fund of the US found public opinion in Germany to be the most pro-free trade compared to public opinion in the US, France and the United Kingdom. This finding confirms my own experience as a Member of the European Parliament involved in trade policy for many years.

And I was not surprised by the poll's finding that Germans seem to be "trade pessimists"; both aspects are paradoxical but not contradictory.

In this essay, I will discuss possible reasons for this seemingly paradoxical result and how to react to it. The prevalent perception that the "German social model" finds itself in a deep crisis may account for much of this pessimism. Therefore, it is important to pursue the reforms proposed by the German government to derive positive and sustainable results as soon as possible. More specifically, two aspects appear to be central to overcome "trade pessimists" attitudes. Policy makers need to address public anxieties associated with economic globalisation and policy makers must take more seriously concerns about the transparency and legitimacy of global institutions. Finding the right answers to those concerns could be a key element in securing a broad-based consensus in favour of free trade policies in Germany.

The German paradox: pro-trade convictions but trade pessimist attitudes

The creation of German wealth after World War II has been closely associated with growing exports. "Made in Germany" was for many years a leitmotif for excellent products produced in and exported from Germany. Since 1952, West Germany has enjoyed a constant surplus in its balance of trade. In 2002, exports in percentage of the GDP amounted to 35%, compared to 27% in France, 26% in the UK and 10% in the US.¹ More than ever, exports are the driving force behind growth in Germany. The structure of exports has changed slightly with automobiles becoming more important, chemicals a little less so while demand for machineries stayed the same. Over the last 11 years, the export share has risen by 11 points.² In absolute numbers, Germany is still the second largest (behind the US) in external trade. The words of the "German Wirtschaftswunder" and the "world champion in exports" are still very much present in people's minds and in current political debates in Germany.

For these reasons, it is not surprising that, overall, Germans have the most pro-free trade convictions when compared to Americans, French and the British. The GMF poll found that 89% of Germans support international trade. Only 25% favour protectionism, as compared to 52% in UK, 46% in France, and 43% in the US. Only 32% of Germans are in favour of imposing tariffs on imported goods (compared to 58% in the US, and 43% in the UK). A mere 35% are favourable to providing subsidies to businesses (whereas 62% of Britons are favourable).

However, the GMF poll finds Germany to be the most "trade pessimist" country when it comes to evaluating the benefits of

¹ Own calculations based on: "National Accounts of OECD Countries, Vol 1.", OECD, 2004.

² Bundesministerium für Wirtschaft und Arbeit, "Außenwirtschaftliche Position Deutschlands", 12.7.2004, <http://www.bmwi.de/Navigation/root,did=36846.html>.

trade.³ The poll indicates that Germans seem to believe less in the benefits of international trade policy for wealth creation than others. Only 60% of Germans think that international trade agreements help to prevent protectionism and unfair trade (against 75% in the UK, 63% in the US and 61% in France). Plus the Germans and the French are sceptical about the potential for developing countries to lift themselves out of poverty through liberalisation and open markets.

Furthermore, French, Germans and Americans are all concerned that international trade costs jobs in their countries. Only in Britain is a majority of people convinced that trade increases the number of jobs.

Possible explanations

The GMF survey itself gives some explanation as to why Germans tend to be relatively pessimistic toward open markets. Firstly, this finding reflects a high degree of pessimism German respondents expressed concerning "the way things are going in their country." 80% of Germans respond that they are dissatisfied, as compared to 67% in France, 61% in the US and 49% in the UK. General pessimism is certainly mirrored when it comes to evaluating the benefits of trade. It is certainly not the "German Ur-Angst". I would like to explain it by the very specific historical and geopolitical situation of Germany. Whereas most Western nation states face similar demographic and economical challenges, Germany has known the additional financial and economical challenge of integrating former East Germany, the "New Bundesländer" into its economy and, even more importantly, into its society. After the enlargement of the European Union, it finds itself also in serious competition with Eastern European countries. This, combined with the global economic slow down in the late 1990s after a long period of economic growth and stability in the 1980s, has contributed to a feeling of general uncertainty among Germans.

³ For methodological reasons, one should, however, be careful not to overestimate the result of the cluster analysis of responses to a certain set of questions.

Today, Germany thus confronts more deep-cutting reforms in comparison with its neighbours, but complex federal decision-making structures make reforms more difficult to achieve. The German federal government has initiated an unprecedented and important, albeit difficult, reform process of the social security system and labour market regulation: the main goal is to reform the social market economy in such a way that the so-called "German model" will be preserved in the mid- to long-term.

As another reason explaining German pessimism towards trade I would submit German (as well as French) scepticism about the effects of globalisation (understood as a multifaceted process of which trade is just one component). 51% of Germans have a clearly unfavourable view of globalisation (France: 54%), whereas in the US and UK almost half of the people see globalisation in a clearly positive way. The debate about globalisation has been especially controversial within Germany and France, but perhaps for different reasons. Whereas the French would tend to regret the loss of national sovereignty, many Germans may still feel uncomfortable with the new geopolitical role of their country and the corresponding responsibilities for world politics. Realpolitik is less well understood when it comes to international politics; the old times when Germany has been "an economic giant, but a political dwarf" might still comfort some Germans. Either way, the discomfort among some regarding the process of globalisation has been very successfully taken up by NGOs and civil society organisations to call into question the international regime of economic governance.

There is one final reason I would like to put forward. Germans perceive even more than others an existing lack of transparency and accountability in international trade policy. 87% of Germans agree that we need greater openness and accountability in reaching trade agreements so that all voices can be heard (compare to 70% of the French, 82% of Britons, and 81% of US-Americans). All agree by a majority of 60% that international trade agreements put "too much power in the hands of un-elected officials at institutions like the World Trade Organisation (WTO)." Certainly, globalisation has, *de facto*, strengthened the executive branch of government although it remains, *de jure*, fully legitimised in the chain of legitimacy. Parliamentarians are no longer able to control and shape

international politics.

What can be done to convince the sceptics in Germany?

CONTINUING DOMESTIC REFORMS

Probably the best way to improve the public climate for trade policy is a thriving economy. Citizens who feel comfortable about domestic economic developments will develop more support for open markets and will support an active trade policy agenda. For the free trade consensus to be maintained in Germany, it will be important for the German Government to succeed in its efforts to reform the social security and labour market system.

The fact that only 35% of Germans support subsidies to businesses should encourage the main political parties in Germany to cut misguided subsidies, for instance along the lines of the so-called "Koch-Steinbrück-Plan" (originally submitted in September 2003). This bipartisan plan calls for slashing federal subsidies from the current €127 billion a year to about €77.4 billion (excluding grants to municipalities, hospitals, childcare and other care centres).⁴ Public money could certainly be better invested in education, human resources, research and should help to stimulate innovation and economic growth. The Lisbon Agenda provides, in principle, a good European framework for such a paradigm shift.

ADDRESSING CONCERNS ABOUT GLOBALISATION

Globalisation - along with economic growth - has also brought about economic change, which for the individual citizen often translates into increased individual uncertainty. It is a matter of fact that low-

⁴ The proposal calls for a reduction of €15.8 billion in subsidies in the first year and an additional €10.5 billion in each subsequent year until the overall goal is reached. Most of the cuts would come from coal subsidies and write-offs that German taxpayers currently enjoy.

skilled workers have lost out in an increasingly competitive labour market. This is particularly true for countries like Germany.

In Germany, as in other countries including the US, job security and the perceived outsourcing of jobs to countries with lower wages has become a central theme in the political debate. Although outsourcing is an issue which has to be taken very seriously, the German debate is often one-sided. The "Wirtschaftswunder" in countries such as the Czech Republic or China is often seen as unfair competition that has been heavily subsidised, subject to low taxes and that has low standards regarding labour or environment regulation. Many Germans feel that the price they have to pay for modernizing their lifestyle is unjustified and too high. The picture is very black and white. Moreover, globalisation is often seen as a force external to the nation state having negative effects on domestic legislation, especially in the areas of environment, social and health policy. The GATS negotiations in services which are now part of the WTO negotiations are a good example of how public concerns can be made global ones. Many NGOs, mainly from Germany and France, have campaigned against the EU requesting developing countries to open up their service markets in sectors such as water distribution.

The relative success of the Anti-GATS campaign also teaches us that the purely self-interested argument "what is good for our companies is good for us because it will help to secure or create our jobs" does not work anymore. This example illustrates that links can be created between national public sensitivities (e.g. about public goods and services) and the global level.

The challenge for policy makers is to shape globalisation. The EU trade policy has therefore been one of the principal advocates of the WTO as a fair and rule based system. An effective and rule based system is the best way of ensuring that the weaker countries will be able to uphold their rights.

An important element in better shaping globalisation is to be responsive to developing countries' interests. Trade is one tool for development, and as such is a tool of foreign policy. European citizens know in principle that combating poverty is one way of fighting terrorism and that it will improve our own security in the long

run. The current WTO negotiations under the Doha Development Agenda aim at increasing the integration of developing countries into the world economy. The EU is very much committed to this broader goal and has stepped back from some of its more immediate interests, for instance with regard to agriculture, access to the markets of the least developed countries, or the so called Singapore issues.

The GMF poll shows that trade pessimists can become trade supporters if they are given the message that “trade is positive but that it involves costs and that there are problems, which policy makers have to address.” According to the poll, such a message would be supported by 84% of the trade pessimists and 76% of the trade optimists.

INCREASING TRANSPARENCY OF EUROPEAN AND INTERNATIONAL TRADE POLICY

In the past, trade matters used to be highly technical matters dealt with by a few trade negotiators and experts. No wonder that the public at large did not bother too much about trade issues. The boundaries between domestic and foreign policy have started to blur. With tariff barriers having been significantly lowered in the past 50 years or so, trade issues increasingly concern non-tariff barriers, which involve domestic regulation and societal preferences. This explains why public interest groups – often promoting a single issue only – shift their action also to the international level and try to make their voice heard to influence the WTO's policies. Increasing transparency of trade policy and strengthening accountability of negotiators to Parliaments is an important way to develop public trust in international trade policy. This process has been initiated both at European and international level in the past few years with some impressive first results.

At a European level, the common commercial policy is the exclusive domain of the European Union. Under the treaties in force, the powers of the European Parliament are, however, limited. Only for certain trade agreements, which have, for instance, budgetary implications or which have set up new institutions (such as the

WTO), does the European Parliament have to give its assent.⁵ The draft Treaty establishing a Constitution for Europe as adopted by the heads of State and Government on 25 June 2004 considerably strengthens the role of the European Parliament in trade policy. When the Constitution is ratified and comes into effect, the Parliament will play a role comparable to that of the US Congress under its fast-track procedures. Parliament will become a co-legislator,⁶ and will have to approve all international trade agreements.⁷

At an international level, parliamentarians from all over the world have also started a political process to increase transparency and parliamentary involvement in the WTO matters.⁸ Since the Ministerial Conference in Seattle in December 1999, the European Parliament and the Inter-Parliamentary Union (IPU) have jointly organised several conferences, sometimes on the occasion of WTO Ministerial Conferences. Parliamentarians have repeatedly called upon governments to formally add a "parliamentary dimension to the WTO". It is important that parliamentarians "go international" -- like government officials, enterprises and NGOs -- to gain the real insights and expertise which are necessary to influence their governments and to shape domestic trade policy.

Some may fear that the more Parliamentarians are involved, the more protectionist trade policy will become. The usual political science logic has it that the nearer a decision-maker is to his or her constituency, the more likely he or she is to view things in a parochial way. Whereas this logic is certainly relevant, it ignores the effect of the international parliamentary meetings. Parliamentarians gain some common understanding of the issues at stake, which they

⁵ Art. 300, para. 3 EC Treaty.

⁶ Art. III-217, para.2 draft Treaty establishing a Constitution for Europe as of 25 June 2004.

⁷ Art. III-227, para.7 in conjunction with Art.III-227, para. 2, draft Treaty establishing a Constitution for Europe as of 25 June 2004.

⁸ For a more detailed account see Mann, Erika (2004): A Parliamentary Dimension to the WTO - more than just a vision ?, *Journal of International Economic Law* 7(3) 2004, pp. 657-66. For a range of relevant articles see Petersmann, Ernst-Ulrich (2004): *Preparing the Doha Development Round: Challenges to the Legitimacy and Efficiency of the World Trading System. Conference Report*", Florence: European University Institute, 27-28 June 2003.

are likely to bring into the national debate. European parliamentarians generally represent a rather diverse constituency, so that they are in a good position to arbitrate between competing interests.

Conclusion

The good news from the GMF poll is that protectionist convictions are not recurrent in Germany - even in times of economic recession (in 2003, the German economy slowed down by 0.1%).

However, Germans are concerned about the ramifications of globalisation, especially for the security of their jobs. Germans also need assurances that their standards (e.g. for the environment and health) can be upheld in the competition between countries. Finally, there is the wish to increase transparency and accountability of trade policy making.

The EU and the German government are more than willing to accept these global responsibilities. When it comes to trade, the EU is a world power. If committed, it can achieve a lot.

Combating Scepticism in India

Pradeep S Mehta¹

In 2004, Indians elected a new coalition government at the national level led by the centrist Congress Party. The previous coalition government, led by the right-wing Bharatiya Janata Party (BJP), had brought forward the elections by about six months, hoping to cash in on the so-called feel-good factor of economic prosperity. The BJP's 'Shining India' campaign backfired because it was only the rich and the middle class who had benefited from the recent economic growth. The poor had remained poor, and thus the campaign failed to convince them that India was really shining. In its six-year rule, the BJP had adopted a vigorous approach to economic reform, in particular on privatisation of public sector units, and this did not gel with the people at large.

The 2004 national elections once again reinforced the fact that people in India tend to be wary of economic reform, and trade liberalisation in particular. A commonly held assumption about trade liberalisation in India - even among the most educated - is that it is a new form of exploitation by the rich world. Public discourse on trade is passionate and generally one-sided. Often it is also segmented according to particular issues, such as patents, offshoring or import of consumer goods. India's fiercely independent media churns out information which is often incomplete or distorted and thus fuels the debates to fever pitch. The media tends to accentuate the negative aspects and ignore the positive aspects not only of trade issues but also political issues in general. As a result, in India trade liberalisation is something which is both misunderstood and spoken about vociferously.

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Perceptions of trade liberalisation as a driver of exploitation and slavery have been magnified since 1995 with the creation of the World Trade Organisation (WTO). The formation of the WTO brought trade closer to the public as agriculture, access to medicines and essential services such as water, health and education were brought under the ambit of the WTO². In India as elsewhere in the developing world, the WTO agreements are perceived as highly unfair and unequal and it is commonly understood that the rules of the game have been set to favour the rich. Though there is some truth in it, the magnitude of the problem is exaggerated and aspects that favour the developing and least developed countries are never highlighted. The fact that the WTO's dispute settlement system has often delivered judgements in favour of the poor countries is rarely publicised. Just one example is a case involving the US ban on the import of shrimps from a few developing countries (including India) which saw the US ban struck down as illegal under WTO rules. Similar David-against-Goliath rulings have recently been made on sugar (against the EU) and cotton (against the US).

Distorted, biased and incomplete information results in a warped public opinion and with democratic governments paying close attention to public opinion, they too often end up pursuing policies that reflect public opinion rather than sound policy analysis. Increasing public awareness of the problems, challenges and opportunities of the global trading system and how these can impact on the domestic economy is very important.

The roots of Indian scepticism

The roots of India's troublesome relationship with globalisation lie in its colonial past. When it was part of the British Empire, India was mainly a producer of raw materials such as jute, cotton and dyes that were exported to Britain, while goods manufactured out of such raw materials were imported from Britain. Trade policy was therefore

² India has not yet opened up essential services sectors such as water, health and education under GATS. Yet fears abound that soon India will be pressurised to open up these sectors causing immense problems to the poor.

biased against the development needs of Indian industries. Small-scale industries like handicrafts suffered especially.

When India gained freedom from the British in 1947, her people were poor and hungry, her economy stagnant and her industrial base negligible. Indian xenophobia about allowing foreign firms entry into India probably stems from this immediate post-Independence period. One of the most striking examples of a foreign firm's exploitation is of an Enron power plant set up a few years ago in the western state of Maharashtra. An extraordinary agreement fixed electricity prices at very high levels and there were credible allegations of huge bribes paid to politicians and bureaucrats. Following a public outcry, the government pressured Enron's subsidiary to lower the tariffs. Enron stuck to its guns and decided to take up the issue for international arbitration. In the interlude, governments changed in the state, with each continuing a charade of trying to resolve the problem. After Enron's collapse in the US, the future of its plant in India fell into limbo. The matter is yet to be resolved.

Another example is that of the world's largest industrial disaster: a huge leak of the poisonous gas, methyl iso-cyanate (MIC) in December 1984 at the Union Carbide pesticides plant at Bhopal, in central India, which resulted in serious injury and deaths of thousands of people and animals. The general opinion of the people was that Union Carbide followed double standards by maintaining very poor safety standards in India and much higher standards for a similar plant in the US. An arrest warrant against Warren Anderson, then US-based Union Carbide's chief executive could not be executed, ostensibly under pressure from the US government. Meanwhile, the meagre compensation offered to the victims has been distributed in a most lethargic manner, thus eroding confidence of the people.

Besides these contemporary cases, the ghost of the East India Company continues to haunt every discussion about trade or investment, whether it is in the media, parliament or even in the privacy of people's homes. Furthermore, the legacy of Nehru and India's pursuit of economic nationalism and state planning is still the

guiding principle of economic governance in most policy circles.³ People still look at self-sufficiency and India's ability to maintain state ownership of the economy's 'commanding heights' as a continuation of a national freedom struggle. This paradigm was manifest in promotion of *swadeshi* (indigenous) products as the goal, with the hope of becoming totally self-reliant. Its roots lie in the campaign of boycotting foreign goods, a campaign launched by Mahatma Gandhi in the 1920s.

Even today, the *Swadeshi* movement continues to thrive in right-wing nationalist circles, in spite of respected critics decrying it as an anachronism.⁴ Parties of the left in India are also quite sceptical of trade. Their stance on liberalisation and foreign direct investment issues is often similar to that of the extreme right, making them strange bedfellows!

The Turning Point

International trade plays only a moderately important role in India's economy. Today exports comprise about 10-11% of the country's GDP. A substantial amount of the import bill is taken up by oil. At independence, India's share of world trade was about 2%, sliding down to 0.6% in 1995. However, in recent years many policymakers have begun to realise that India needs trade-led development to fight poverty and hunger. The new government's Foreign Trade Policy announced in August 2004 has set a goal of doubling India's share of world trade to 1.5%. The early 1990s marked the beginning of a process of trade liberalisation which emphasises export-led growth and the reduction of trade barriers. Since India joined the WTO in 1995, its share of international trade has gone up by 25%, i.e. from 0.6 to 0.8%. Whether this increase is organic or due to the WTO is debateable. However, many desirable domestic reforms have been carried out due to the commitments made under or the weight of discussions at the WTO. One good example is the

³ See *Trade Policy Making in India—The Reality Below the Waterline*, Julius Sen, CUTS 2004

⁴ See Jagdish Bhagwati, *In Defence of Globalisation*, 2004, Oxford University Press.

enactment of a modern competition law in 2002, replacing the 1969 Monopolies and Restrictive Trade Practices Act.

The problem is that the process of economic liberalisation is taking place in the context of sceptical public sentiments anchored in decades of anti-liberalisation campaigns. Little has been done to inform people and address their fears. Seventy percent of the Indian population lives in rural areas and slightly less than half of the population is illiterate. These hard to reach groups need to be informed as a matter of urgency. People are being affected by processes which they do not fully understand and which seem very distant. This inevitably inspires fear amongst the poorest. For instance, the development of Trade Related Intellectual Property Rights (TRIPs) is clearly very far removed from the lived reality of a poor farmer who is unaware of the difference between product and process patents. Yet the common man will know that the prices of essentials such as seeds and medicines are going to increase. Rumours about the implications of TRIPs have run rife in the Indian countryside, often fuelled by the unscrupulous activities of certain multinationals. Recent cases include the attempts by US corporations to patent staple Indian products, including turmeric, basmati rice and *neem*.⁵ Turmeric is known to have medicinal value and has been used in the Indian subcontinent for centuries and Basmati is an aromatic variety of rice that farmers in India and Pakistan have been producing for millennia. TRIPs should have no role in helping foreign companies try to patent them under false claims. When such attempts are made, they are inevitably highlighted in the media which channels its criticism onto TRIPs.

⁵ The University of Mississippi Medical Centre in the US filed an application for a patent at the US PTO for the use of turmeric powder as a wound-healing agent on December 28, 1993. The US PTO granted patenting rights over turmeric to the UMMC on March 28, 1995. However, India challenged this. After protracted technological arguments the US PTO unequivocally rejected all six claims made on August 13, 1997 ruling that turmeric's medicinal properties were not patentable. Similarly, in September 1997, Rice Tec Inc. was awarded Patent number 5663484 on Basmati rice lines and grains by the USPTO. This caused a furore in the Indian subcontinent and provoked India to lodge a protest. Finally, in March 2001, the USPTO told Rice Tec that of its 20 claims only three were approved.

Patenting of Neem: A Case of “Piracy”?

A campaign was launched not only in India but globally on the neem issue. Neem is a common wild tree in India that has a variety of pesticidal, medicinal and other uses. W.R. Grace, a company based in the United States, acquired a patent in 1992 in the US Patent Office covering the method of extracting the active ingredient in neem and stabilizing it for longer shelf life. In 1995 over 200 organisations led by various activists and a farmer’s lobby in India filed a petition in the USPTO requesting a withdrawal of the patent. This petition was dismissed but led to an enormous public outburst both in India and other countries on the implications of patents on traditional knowledge/genetic resources. It enabled the NGOs to effectively turnaround the accusation by multinational firms against Indian ‘piracy’ on several things, by denouncing the multi-national corporations as the real pirates.

Source: Anitha Ramanna, Interest Groups and Patent Reform in India (http://www.igidr.ac.in/pub/pdf/anitha_wp.pdf)

Reporting on the unscrupulous behaviour of multinationals is clearly more appealing to the press than reporting on complex trade issues and the Indian media readership thrives on such stories. Once these debates gain currency in the media, Parliament too enters the fray. Most Indians (including politicians and bureaucrats) are hardly aware that for the international trading system to work there need to be trade-offs, or give and take, which help to move the agenda on. For example, in the Uruguay Round developing countries agreed to TRIPs in exchange for an agreement on textiles and clothing.

Unfortunately, the confusion and scepticism is only compounded by the government’s failure to communicate these realities to people in easily understood messages. In recent years the only case of a politician coming out to explain India’s position in trade negotiations was the former Commerce Minister, Arun Jaitley, who following the Cancun Ministerial published an article in the press explaining the reasons for the breakdown of the talks.

Some facts on the ground

When the government talks about its achievements on the trade front, it normally boasts about the fact that India's share of world trade has grown over the last few years. This hardly explains anything. As mentioned before, India's share in world trade was much larger at the time of Independence in 1947. Nobody would believe that India was better off during those days. In fact, the popular perception was that the colonial government followed a deliberate policy to export raw materials to Britain and even maintained a huge trade balance in favour of India which actually caused a drain of resources. Unfortunately, there have been very few detailed and authentic studies to analyse the impact of growth in trade on poverty reduction. One such study by CUTS in 2000 showed that trade liberalisation has actually led to a reduction in poverty where more jobs were created in labour-intensive sectors.⁶

The government has also failed to recognise that trade policy alone cannot create miracles. Trade liberalisation needs to be complemented with policies in other areas to maximise the benefits. For example, although India exports large quantities of handicraft items, these products tend to be manufactured by a very large number of small household enterprises. Most are at the mercy of a few large exporters who behave in a semi-collusive manner and exercise monopolistic dominance over their small suppliers. Needless to say the benefits do not reach those producers who continue to wallow in poverty.⁷ So far, the government has done very little to tackle this problem and to ensure that small-scale producers are protected from powerful middle men.

⁶ "Liberalisation and poverty: Is there a virtuous circle?", CUTS, 2000.

⁷ See, for example, various articles carried in a special issue on informal sector, *Indian Journal of Labour Economics*, No. 3, 1998; Navsharan Singh and Manjul Bajaj, *Invisible Workers, Visible Contribution: A Study of Homebased Women Workers in Five Sectors across South Asia*, July 1999 (www.wiego.org/papers/navsharan.pdf)

Similar cases are also found among farmers. Potatoes from West Bengal have recently started to gain access to the lucrative market in Singapore, but the major beneficiaries have been a handful of exporters and domestic traders rather than the farmers. Such problems are rampant in markets for several agricultural products where the collusive practices of intermediaries disadvantage the farmer that has actually grown the produce.⁸

The role of the civil society

The thousands of NGOs that exist in India play an important role in shaping public opinion on trade issues. Furthermore, NGOs are key actors when it comes to getting environmental and social issues into the public consciousness and onto political agendas. As noted by economist Jagdish Bhagwati in his book, *In Defence of Globalisation*, it was a group of effective NGOs which brought the negative environmental impacts of coastal shrimp farming to the attention of the Environment Ministry. The problem is that although some NGOs do support sound economic management, the vast majority of them still subscribe to economic philosophies that date back decades.

It is ironic that although NGOs have generally been critical of the process of globalisation, they have become a significant force precisely because of their global links.⁹ But although this global network allows NGOs far better access to debates in different parts of the globe, very few of them actually carry out research studies in their local surroundings to assess the impact of globalisation or trade liberalisation. It follows that campaigns by many of NGOs thrive on myths rather than reality. For example, many NGO activists have attributed the recent suicides of several thousand Indian farmers to

⁸ Ramesh Chand, *Agriculture markets in India*, paper prepared for CUTS in the research project "Towards a Functional Competition Policy for India", to be published.

⁹ See, Margaret E. Keck and Kathryn Sikkink, *Activists Beyond Borders: Advocacy Networks in International Politics*, 1998, Ithaca, NY, Cornell University Press.

the WTO.¹⁰ Most of them have failed to point out that it was drought and bad seeds that caused a crop failure that pushed many farmers to despair.¹¹ Similarly, rice farmers in the state of West Bengal who have been hugely successful in increasing their productivity are now facing a crisis not because of the WTO but because of the large subsidies provided to farmers in several other states and the impoverishing depression of rice prices.¹²

Prices of pharmaceutical products have seen significant increases in India over the last few years and very often this is attributed to TRIPs. The reality is that product patenting of pharmaceuticals under TRIPs is yet to come into force in India and the prices have increased due to large-scale deregulation of pharmaceutical prices. Indeed, the government is reconsidering its pharmaceuticals pricing policy. It may be catastrophic to remove all controls when the industry is regulated in most other countries and when even the United States is currently considering price regulation in the sector.

Even concerns about the increase in the price of medicines and the impact on consumers are highly exaggerated. Over 95% of drugs on the World Health Organisation's essential drugs list are not protected by patents. These are the drugs most needed by the majority of the population.

Finally, one of the most generalised myths in India is the belief that the removal of quantitative restrictions on the import of consumer goods has led to the dumping of low price foreign goods on Indian markets and the closure of small scale import-competing enterprises. In reality, increased imports of consumer goods has encouraged competition among domestic firms, thus improving

¹⁰ See Vandana Shiva, *WTO Negotiations And The Betrayal Of The Doha Mandate, 2004*, (<http://www.ifg.org/analysis/wto/Shiva-Ag&Bio.html>)

¹¹ See, for example, a series of articles by P. Sainath tracing the many elements of crisis in rural Andhra Pradesh leading to suicides (<http://www.indiatogether.org/opinions/psainath/suiseries.htm>). He identifies several such elements but WTO is not even mentioned.

¹² P. K. Ghosh and Barbara Harriss-White, *A Crisis in the Rice Economy*, Frontline, September 14-27, 2002.

quality and bringing down prices. Meanwhile, the number of small enterprises and their combined turnover has actually grown.¹³

Myths of this kind reinforce the anti-globalisation and protectionist mindset of many Indians. Unfortunately, international institutions and civil society organisations (CSOs) have not been quite as effective in emphasising the advantages of the rules-based nature of the WTO for developing countries like India. They have failed to express how if it were not for the WTO developing countries would be at the mercy of the developed nations who would find it easier to exert their clout through bilateral and regional trade agreements.¹⁴ It was for this reason that the Doha Ministerial declaration (paragraph ten) mandated governments to educate the public: "We shall therefore at the national and international levels continue to promote a better understanding of the WTO and to communicate the benefits of a liberal, rules-based multilateral trading system". Much remains to be done in this area.

India's sectoral business bodies

Indian sectoral bodies are well known for their effective press campaigns. Generally, they have been relatively less committed to liberalisation as many of them benefit from keeping high tariff barriers in products that they are manufacturing and selling but removing them in the products that they use as raw materials. They often promote collusive practices among their members and, as in many other countries, use every possible opportunity to initiate anti-dumping actions against imports.¹⁵ The national business chambers have generally refrained from public criticisms of the government (and particularly the bureaucracy). This practice has its origins in the

¹³ The number of SSI units has grown from about 7.649mn in 1993-94 to about 11.395mn in 2003-04, while the turnover, during the same period, has increased from Rs.988bn to Rs.2266bn (in 1993-94 constant prices) (Source: Ministry of Small Scale Industries, Government of India, *Annual Report 2003-04*.)

¹⁴ Yuill Herbert, *Divide and Conquer: Bilateral Trade Agreements*, 2004 (http://dominionpaper.ca/features/2004/04/06/divide_and.html)

¹⁵ See Aradhana Agarwal, *Anti Dumping Law and Practice: An Indian Perspective*, 2002, ICRIER, India.

pre-reform era when the licence-quota-permit raj operated at full tilt and bureaucrats had significant powers at their disposal. The messages coming out from the private business sector on trade policy are therefore quite confusing.

Conclusion

An appropriate trade policy is extremely important for development and poverty reduction in India. This is not to say that there is no need to protect some industries if genuine public interest concerns are involved. For instance, some sectors which provide large number of jobs, such as in the dairy or edible oil sectors. Unregulated imports can lead to social disequilibrium. However, “protectionism” as a generalised policy must be avoided at all costs. Prior to 1991, India had import duty rates over a few hundred percent in several product groups. However, a good trade policy in itself is not sufficient. The government needs to adopt appropriate policy measures in banking and other areas. The most important is to put in place an appropriate competition and regulatory framework, an area where India’s performance has been far from satisfactory.¹⁶ The new government should learn from the failure of the BJP’s ‘India Shining’ campaign and commission research studies to find out why the gains from trade are not percolating down to the poor. This would not only help in dispelling many of the myths but would also inform the development of appropriate policy measures.

Secondly, the central government needs to involve sub-national governments closely in formulating and implementing trade and investment policies. In the past the Congress party ruled both the centre and most of the states on its own. Coalition government makes this task more difficult, but not less important.

India’s leaders need to show greater leadership when it comes to resolving trade disputes and avoid using the WTO as a punching bag whenever the going gets tough. The government does little to clear these doubts and dispel myths. Civil society organisations

¹⁶ See Pradeep S Mehta and Nitya Nanda, *Capacity Building on Infrastructure Regulatory Issues*, 2004, CUTS, Jaipur, India.

must formulate their advocacy stances based on research and analysis rather than emotions and rhetoric. They also need to distinguish between the impacts of trade liberalisation and globalisation, and failures in domestic governance. By naively ignoring this they can cause more harm to the people that they claim to represent and serve.¹⁷

On a final more optimistic note, it should be noted that despite a fair amount of scepticism, the voices that favour reform are also strong. There exists a broad political consensus that economic reforms should continue. People of course differ regarding the nature, speed and sequencing of different reform measures. The World Bank report, "Doing Business in 2005: Removing Obstacles to Growth" found India to be the fifth best reforming country over the last year though it has a long way to go.

¹⁷ Sarah Joseph makes a compelling case for this in *Good Governance Agenda*, The Hindu, July 31, 2001.

Section 2: Issues and Actors

Offshoring: the new frontier in the globalisation debate¹

Paul Morrison

The globalisation of manufacturing and materials is an ancient economic trend, well known to traders, governments and consumers throughout history². But in recent years, a new type of globalisation – of services – has started to emerge. This ‘offshoring’ trend is opening up a new front line in the globalisation debate. For many globally-minded policy makers and executives, this ‘offshore backlash’ is unwelcome and unnecessary, as it appears to them to be driven by the wrong-headed whingeing of the economically illiterate. As a result, in my discussions with executives considering offshore plans, I often detect a sense that business should ‘just get on’ with doing business, and let the concerns of the media, politicians and society evaporate as they get used to the idea of offshoring.

Many of the fears about offshoring are indeed exaggerated, even sensationalist. But all parties would be well advised to take the offshore debate seriously. The controversy will not simply disappear, and those who wish to promote offshoring therefore need to understand and address the range of concerns that it provokes.

Dissecting the offshore debate

Offshoring simply relates to the cross-border relocation of service activities – either outsourced or in-house – and therefore technically refers both to trade and investment flows. To some extent,

¹ This essay includes material from Paul Morrison, ‘The Politics of Offshoring: trends, risks and strategies’ in *Technology and Offshore Sourcing Strategies*, (Palgrave) 2004.

² For example see Chapter 4 ‘Cradle of Multinational Enterprise: Assyria and Babylonia 2000-1000 BCE’ in K. Moore & D. Lewis, *Foundations of Corporate Empire*, (Prentice Hall), 2000.

offshoring is nothing new – some service globalisation has been around for a long time. Pioneers such as British Airways and General Electric have been ‘offshoring’ for decades, even though they labelled it differently.

Offshoring has been focused so far on activities such as IT development, call centre work, and increasingly on shared service centres and ‘business process outsourcing’ (BPO) for activities such as human resources, finance and accounting. As a destination for offshore activities, India leads a competitive market, including countries such as China, the Czech Republic, Mexico and Ireland.

Offshoring first hit the headlines in late 2002 in the US and UK³. During 2003, the volume of press stories, web chat, and TV coverage grew substantially – often critical or fearful in nature. A few recurring issues have stood out for critics, namely the impact of offshoring on quality of service, security, exploitation of workers, and the economy – in particular the impact on jobs in Western economies. Given the relative sophistication of many offshored activities, offshoring has given rise to anxiety about the vulnerability of Western countries, for example to economic ‘hollowing out’, a ‘jobs exodus,’ sabotage, or perhaps merely to incompetent customer service.

These issues represent a clear continuation of well established popular concerns about global trade (notably jobs anxiety and industry protection), as identified in the German Marshall Fund study ‘Reconciling Trade and Poverty Reduction.’ But there is also a shift in emphasis. Offshoring is bringing the globalisation debate ‘closer to home’, with a sharper focus on the risks posed to the developed

³ Public controversy regarding offshoring has not yet fully emerged in France or Germany. So far, the level of controversy in a country has been directly proportional to the level of offshoring it has undertaken, with the US as the leading offshore ‘consumer’, followed by the UK. Most commentators predict rapid growth in European offshoring over the next few years.

world, rather than the potential for exploitation of developing countries.⁴

Three levels of impact

Public criticism of offshore business plans has been driven by the concerns of three groups - workers, customers and politicians.

For *employees*, offshoring plans can generate fears about redundancy, loss of opportunity and long term employability - even though an offshore strategy could be a crucial step in safeguarding a company's employment potential - with implications for retention and recruitment in the business as a whole.

Amongst the earliest incidents of tension and disruption caused by offshore plans⁵, there were the protests by the union Amicus against Prudential in late 2002, which later modified plans to relocate activities to India⁶. BT was affected by similar protests in March 2003⁷. In the US, telecoms operator SBC faced four days of strikes by the Communication Workers Union of America (CWA) in May 2003, partly as a result of offshore issues⁸. Similarly in the US, offshoring plans raised employee concerns regarding firms such as IBM, Bank of America and Microsoft⁹.

⁴ For more information, see Paul Morrison, 'The Politics of Offshoring: trends, risks and strategies' in *Technology and Offshore Sourcing Strategies*, (Palgrave), 2004.

⁵ The economic impact of sourcing work overseas to India is no stranger to controversy. As long ago as the late seventeenth century, English commentators lambasted merchants for sending increasing quantities of cloth to the subcontinent to be finished, for fear of undermining England's industrial base. See David Landes, *The Wealth and Poverty of Nations*, (Abacus, London), 1998, p.228.

⁶ ComputerWeekly.com, 'Legal action on Pru's India deal may stall outsourcing', Nick Huber, 3 October 2002. See <http://www.computerweekly.com/Article116283.htm>.

⁷ ZDNet UK, 'Workers protest over call-centre outsourcing', Andrew Swinton, 20 March 2003. See: <http://news.zdnet.co.uk/>.

⁸ Reuters News, 'SBC, Union Reach Deal After 4-Day Strike', Justin Hyde, 25 May 2004.

⁹ For example, see *The Economic Times*, 'Outsourced: Death in Silicon Valley', Chidanand Rajghatta, 27 May 2003.

However, what has set the offshoring debate aside from other trade-related disputes is the often high degree of collaborative engagement between employers and unions, particularly in the UK. In recent months two agreements have been reached to avoid involuntary redundancies, one between Connect and BT, the other between UNIFI with HSBC and Barclays. Notwithstanding such collaboration, in private many executives continue to flag the employee relations impact of offshoring as a major issue.

In the case of *customers*, offshoring poses a risk for the brand positioning and reputation of companies. If an offshore strategy were to be unpopular with consumers (for example through a perceived impact on quality of service), it is not difficult to see some form of negative sales impact, or even consumer boycott. Offshoring could particularly undermine a brand with a strong emphasis on 'community' or 'national' values.

So far customer attitudes have not yet significantly mobilized against offshoring. Nevertheless blue-chip offshore clients are clearly concerned about how global sourcing could influence brand perceptions, as indicated by the secretive nature of most offshore strategies.

Notably, a number of leading consumer brands, such as Nationwide and Alliance & Leicester in the UK have publicly adopted 'non-offshore' positions, choosing instead to emphasise their commitment to local operations. Phil Williamson, CEO of Nationwide, observed that his organisation has 'strong links to the communities in which we operate and we have no plans to desert these local communities in favour of overseas call centres'¹⁰.

A number of surveys suggest there is broad consumer disapproval about offshoring. For example a recent Lloyds TSB union survey suggests that 55% of Scottish customers would consider changing bank rather than having their accounts managed in India¹¹. Despite

¹⁰ Nationwide Press Release, 'Nationwide says no to sending call centres abroad', 12 Jan 2004.

¹¹ Lloyds TSB Union News Release, 'MORI poll attracts extensive media interest', May 2004. See: <http://www.saveukjobs.com/news.php>.

such strident predictions, exactly how 'onshore' strategies will play with consumers remains to be seen.

Finally, the reaction of *politicians* is critical to the viability of offshoring. As with all multinational business, offshoring is only possible because it is allowed to happen by a regime of national and international legal and political permissions. Politicians have the power to curtail or promote offshoring via legislation and public policy – using tools such as taxation, subsidies or new regulatory requirements.

This political angle has been the focus of the offshoring debate in America, where politicians have tapped into popular concerns, in particular relating to job destruction and security. There have been dozens of proposals against offshoring, focused on measures such as the restriction of public contracts and new visa restrictions. Senator John Kerry made an issue of offshoring in the 2003/4 Presidential campaign, lambasting 'Benedict Arnold' CEOs for undermining the US economy¹², and proposing federal 'right to know' legislation to moderate offshoring. By April 2004, politicians in 36 states had introduced 100 bills to restrict outsourcing and offshoring, with numerous initiatives at a federal level¹³.

Yet despite this intense debate and lobbying, the enacted policy measures against offshoring have not been substantial in the US. Both federal¹⁴ and state¹⁵ level legislative activity has been limited,

¹² Benedict Arnold was an American Commander in the War of Independence who in an infamous act of treachery switched allegiance to the British.

¹³ National Forum for American Policy, 'Exporting the Law: A legal analysis of state and federal outsourcing legislation', Shannon Klinger and M. Lynn Sykes, April 2004. See <http://www.nfap.net/>.

¹⁴ The one federal bill passed into law, the Thomas-Voinovich amendment (January 2004), only applies to Treasury and Transportation budgets, and it has been estimated to impact an estimated 1-2 per cent of Indian offshoring revenues. The White House has generally followed an increasingly pro-offshore line, despite the controversial reception of Gregory Mankiw's Economic Report of the President published in February 2004.

¹⁵ For example, the state of Indiana cancelled a \$15.2m contract with Tata Consultancy Services (TCS) in November 2003, requiring that the project be supplied by local vendors. *The Economic Times*, 'India alarmed by Indiana's cancellation of software deal', K.C. Krishnadas, 11 December 2003.

focusing in particular on very circumscribed areas of public procurement.

Meanwhile, the UK has as yet seen no legislative activity. Relatively high levels of employment have reduced the political temperature regarding offshoring, and a strong free market argument has been widely broadcast by the government, both by the Department for Trade and Industry and the Prime Minister. Yet significant pressure for political intervention is not inconceivable. As offshoring continues to accelerate, there could be renewed impetus to redefine the boundaries of what should be sourced globally¹⁶.

Drawing these three angles together, it could be concluded that the impact of the 'backlash' has so far been limited. Worker disruption has not been widespread; there is little evidence of sustained consumer activism on offshoring; anti-offshore legislative moves have been minor in scope, and campaign groups have been acquiescent.

Yet even though the debate has not stopped the rapid growth of offshoring, this does not mean it has had or will have no impact. Individual companies sense that there is still considerable scope for internal disruption and reputational damage, and are still deeply concerned about becoming a 'flashpoint' of criticism. As a result, over the past 2 years many offshore plans have been scaled back, delayed or even cancelled. Whether misguided or not, the perceptions of employees, customers and politicians determine whether an activity can be offshored without entailing significant hostility or reputational damage.

¹⁶ The French government announced in September 2004 a series of potential policies to combat 'délocalisation', including tax breaks for firms staying onshore. This could signal the rise of more interventionist attitudes towards offshoring in (Western) continental Europe. *Le Figaro*, 'Maignon lance l'offensive contre les délocalisations', 14th September 2004.

The future

It appears likely that these perceptions will continue to be important in the future, as offshoring accelerates¹⁷ and broadens into new activities and industries. Although the growth of offshoring should not be overstated (and most analysts predict a total offshoring market size of no more than \$50 billion - \$100 billion by 2010), it is rapidly spreading into new industries, and 'moving up the value chain' into increasingly sophisticated activities. In financial services for example, offshoring increasingly applies not only to call centre or IT back office work, but also to activities such as equity research and actuarial analysis. And each time offshoring enters a new subsector of the economy, there will be controversy and conflict as new interests are challenged.

The political temperature will be particularly hot where offshoring challenges 'strategic' activities – particularly in research intensive sectors such as biotechnology, nanotechnology, or those that are linked to public services. Excepting the US legislation already mentioned, the relationship of offshoring to public services remains poorly defined, particularly in the UK. Yet initiatives to improve public service efficiency and effectiveness look likely to bring offshoring and politics into a protracted debate about appropriate public procurement.

Through the GATS process and ongoing service liberalisation, the WTO may eventually find itself at the centre of this controversy. Governments concerned about the impact of offshoring could use the WTO as a forum to limit the liberalisation of 'vulnerable' service sectors. Similarly, supporters of offshoring could turn to the WTO where they see protectionist policies (such as subsidies or tax breaks) as an infringement of existing WTO commitments¹⁸. At this stage the future of offshoring will be shaped by the global politics of trade, as well as by domestic debate.

¹⁷ Evalueserve predicts a 30% compound annual growth rate for BPO / IT offshoring 2004-2010. See 'Status of BPO Industry, Present and Future', Evalueserve, July 2004.

¹⁸ For example, see S. Miller and C. Binkley, 'U.S. Ban on Web Gambling Breaks Global Trade Pacts, Says WTO', *Wall Street Journal*, Mar. 25, 2004.

One final factor regarding the future direction of the offshore debate concerns international development NGOs and agencies. As yet, no major campaign group or development agency¹⁹ has publicly endorsed or criticised the impact of offshoring, even though it has been one of the highest profile business trends of the past two years. This is particularly surprising given the apparently positive development impact of locating offshore services in countries such as India (notably through employment opportunities and technology transfer - is offshoring not an excellent way of 'bridging the digital divide'?), and the fact that NGOs have been taking an increasingly robust stance on trade and protectionism issues, as discussed by Peter Willetts in his essay.

Off the record, NGOs indicate that they do not yet have enough information. Whether through a lack of information, or the desire to avoid antagonising domestic audiences, this NGO silence strongly differentiates offshoring from previous phases in the globalisation debate, where campaign groups have strongly influenced public opinion of multinationals. Intervention from campaign groups, either critical or supportive, could yet be a significant determinant of the future offshore debate.

Approaching the offshore debate

So given the sensitivities and risks outlined above, how should globally minded policy makers and executives approach the offshore debate? A number of basic challenges stand out for those aiming to promote a balanced offshore agenda. Policy makers have a facilitative role to play here, but these recommendations apply in the first instance to the drivers of change - businesses:

1. Listen to your stakeholders

Offshoring does not occur in a vacuum. A clear understanding of the perspectives of all stakeholder groups is invaluable. This involves identifying all key stakeholder groups (such as employee, customer, media, regulator, community) and sub-groups, and then mapping against

¹⁹ With the exception of some broadly positive analysis by UNCTAD.

each the relative importance of different concerns (such as security, quality, economic impact). This issue-stakeholder map can then form the basis for a plan of action to approach the offshore debate. This process should be dynamic, as the make-up of stakeholders and their concerns will evolve with time. Timing is critical: according to Xansa, 'It is very important to think about stakeholder strategy early, so as to mitigate the risks from the start.' BT's recent white paper 'Good Migrations', is a good example of a detailed assessment of the stakeholder impacts of offshoring²⁰.

2. Tackle the downsides

Offshore sourcing does not necessarily entail employee retrenchment. But in the many situations where this is the case, mitigation planning is essential - firstly to avoid displacement where possible, and secondly to support displaced workers where avoidance is not possible. Corporate 'avoidance' strategies include retraining, voluntary redundancy schemes, and redeployment programmes. 'Support' strategies for displaced workers include retraining allowances, compensation, and outplacement assistance.

As an example, Barclays Bank announced in January 2004 that it had reached a major agreement with the union UNIFI to work collaboratively on offshoring²¹. The agreement covered a range of activities, including a redeployment programme, a £2 million fund to provide training for displaced employees, outplacement support, plus an agreement that all staff whose jobs are potentially to be offshored will be given 3 months advance notification of potential displacement, plus another 3 months if they are actually displaced. In order to minimise compulsory redundancies, the agreement also included provision for a

²⁰ See <http://www.btplc.com/Societyandenvironment/>.

²¹ Barclays press release, 'Barclays and UNIFI announce offshore agreement', 5 January 2004. See <http://www.newsroom.barclays.com/news/data/927.html>.

'voluntary redundancy register' and 'job matching' to be administered by an HR team at an annual cost of £250,000.

Naturally the specifics of any given displacement strategy will vary in scale and content, but it is important to formulate the details early, so that they can be factored into the 'bottom line' business case for the offshore project.

In addition, consideration should also be given to communities where substantial numbers of redundancies could result in more systemic displacement problems – such as in a region where a number of call centres have been retrenched. Coordination between businesses and local and national public bodies will be valuable in such situations, although the primary responsibility for mitigating any given displacement lies with the employer.

Policy makers do need to review at the macro level how well equipped the workforce is to meet challenges of a globalising service economy. This will include the familiar themes of flexibility, training and education, but they will need to be considered in the light of how offshoring is changing the structure of the workforce as a whole. Policy makers need to have an informed view of which capabilities, skills and resources the economy will need in the future, and those that will become obsolete through service globalisation. In short, they need a clear picture of which activities will become *commoditised*, which will be *core*, and which will be in *contention* with offshore competitors.

But government should avoid trying to make certain sectors 'offshore-proof'. Where industrial policy identifies sectors that are strategically important, success in the global economy will be based in part on the ability to make use of offshore capabilities. Governments will do no favours for biotechnology, nanotechnology or other emerging sectors by preventing them from tapping into the world's best resources - wherever they might be.

3. Make the case for offshoring

Effectively communicating the rationale for offshoring is crucial. This is a complex task, relying on a detailed understanding of the offshore plans in question, the perspectives of stakeholders, and clear thinking regarding mitigating strategies for the potential downsides of offshoring. Communications need to combine a recognition of the concerns that offshoring can generate, a persuasive dismissal of the 'myths' of offshoring, and a reaffirmation of the company's core commitments – such as the development and welfare of the workforce as a whole.

Communication should of course be in terms that are meaningful to the end audience (avoiding economics and business case jargon), but at the same time needs to underline the powerful business factors that drive offshoring. The right mode of communication may well take a number of forms, according to the audience in question (such as internal memos, speeches, articles, white papers, press releases).

Delivering communications that are clear, comprehensible and honest, is a major step to minimising the scope for misunderstanding and anxiety, both inside and outside the business. Significantly, both the US and UK governments have supported this line of thinking in their own communications so far.

4. Don't let standards slip

Reduced standards are a major concern of the critics of offshoring. Therefore any offshoring plan will need to build in mechanisms for meeting very high expectations in quality of service, security, business continuity and data protection. This applies equally to an in-house facility (via processes, methodologies and corporate culture) as to an outsourced facility (via contractual and service level agreements). Service level expectations must be defined and monitored, both during transition and ongoing operation.

Policy makers, regulators and NGOs have a clear role here to facilitate and communicate new standards where appropriate, to build confidence in existing standards, and to monitor compliance.

In addition, offshoring needs to be aligned with corporate social responsibility principles at an early stage. There is a need to ensure that offshore operations do not compromise CSR commitments, such as minimum labour standards, environmental impact or community support. This will require audit activities to ensure compliance, consultation with local stakeholders (such as community groups, NGOs), and identification of strategies to mitigate negative local impacts, such as changes to working patterns and pressures on traditional family life. Although the CSR angle of offshoring has not yet been widely scrutinised in public, it is likely to form an increasingly significant focus, especially for leading brands.

For many executives, these suggestions might appear to get in the way of 'just getting on with it.' However, I have tried to show that although there are a range of complex and deeply held concerns about offshoring, there are also practical options available to those who wish to pursue offshoring with integrity. No doubt the future will provide a rich case history, illustrating where companies have appreciated the importance of such concerns - and where they have not.

Trade liberalisation, public opinion and the EU's Common Agricultural Policy

Paolo De Castro and Felice Adinolfi

The agricultural sector in the trade liberalisation process

Trade liberalisation has been a major issue of international relations ever since the Great Depression of the 1930s made apparent the risks of protectionist economic policies and the opportunities provided by increased economic and commercial cooperation. Approaches to trade policy have seen profound differences over the years reflecting highly polarized political views and different aspirations for national economic development policies in different parts of the world. Without detailing the different steps of the international path that started in 1947 with the General Agreement on Tariffs and Trade and led to the birth of the WTO in 1994, it should be noted that within the eight negotiation rounds, special categories of products, including agricultural ones, have followed particular negotiation paths.

Within the gradual development of an international regulatory framework for trade, the formation and development of the European Union has led to a convergence of European countries' trade policies; this is the result of a largely shared view of internal and external trade relations which probably reflects the grand geopolitics of the 'European integration project' more than policies of strictly economic nature. Among EU member states there have always been different positions on trade liberalisation, some being more cautious, others more oriented to reducing trade barriers. This can be partly ascribed to the different historical traditions of economic policy in the Northern and Southern Europe. The case of agricultural products is a typical example: different attitudes are

influenced first by the requirements of domestic demand for food and second by the need to protect the areas and producers of great national importance, while trying to ensure that both the opening of markets and the withdrawal of support policies is done gradually.

The evolution of European trade policies towards a more liberalising stance has been driven by economic events. In the late 1970s, the oil shock caused a decline in international food demand and policy-makers began to reflect on how agricultural support policies were contributing to the problem of over-production, surpluses and distortions in world trade.

The evolution of the CAP

The evolution of the CAP has gradually reduced the number of obstacles to achieving freer trade within the EU single market and other new socio-environmental objectives such as food safety, safeguarding animal welfare, protecting the countryside and environment, and sustaining marginal areas. This in turn has produced a significant (even if far from complete) outward opening of markets towards third countries. The evolution of the CAP can be seen as the result of the change in the balance between the three historic positions of EU member states in the CAP debate.

First, there is the “protectionist” position that aims to maintain a high level of support although being aware of the need to modify policies to adapt to the EU’s budget constraints and to the dynamics of competitive markets. This position stresses the importance of safeguarding the economic and social value of the “agricultural space” and is motivated by fears about the effect of competitive forces on the viability of inefficient, higher cost producers. Second, there is the “free-trader” position that sees the CAP primarily as a barrier to the implementation of an efficient and competitive market in agriculture and a burden on taxpayers and consumers. Insofar as agriculture embodies collective values and provides public goods, “free traders” would rather these be supported through regulation and support measures that do not distort the market. Third, there is the “environmentalist” position based on the primary objective of

encouraging and safeguarding agriculture's potential for providing environmental, social and cultural benefits.

In our opinion, the balance between these three approaches will shape the long-term evolution of the CAP beyond the period (2006-2013) set out in the recent Mid-Term Review agreement of 2003. The Mid-Term Review agreement built on the significant changes in the CAP that began with Commissioner Ray MacSharry's reform package of 1992 and continued with the Agenda 2000 package of 1999. The new vision embodied in the three reform rounds aims to maintain the *social objectives* of traditional sector-supporting policies but within a system largely oriented to the reduction of trade barriers and market distortions and an increased emphasis on environmental considerations.

But the journey is far from over. Further liberalisation of markets in farm products would reap benefits for both Europe's businesses and its citizens. As subsidies would no longer distort production and investment decisions, this would bring efficiency gains for the general productive and economic system, whilst people would enjoy lower prices of food products and taxpayers would benefit from the greater rationality of social expenditure. There would be other indirect benefits such as protecting the countryside and the sustainable economic development of rural areas.

These are the elements on which the challenge of Europe's political agricultural future should be based. Meanwhile, it is essential that policy makers ensure that even within a global competitive system they remain conscious of the values expressed by modern society. Food safety is a key objective. It will be extremely important to identify the right tools to ensure the safety and quality of foods and the provision of relevant information to consumers while at the same time taking care to avoid these policies leading to protectionist temptations (a typical example is the difficulties created by the North American trade legislation to the export of products like Parma ham). The overall objective must be to bring producers and consumers closer together, increase the flow of information, and to work towards the harmonisation of the standards of safety, quality and communication to the consumer. Achieving this is one of the main

challenges of agriculture and trade policy today, and it is not easy because globalisation makes markets larger and results in an increasing diversity and variety in both consumer preferences, market supply and patterns of consumption.

In the context of international trade, there is gradual movement towards the elimination of barriers to the EU's imports, customs duties have been reduced and the effect of quota restrictions is less significant; for some regions, full trade liberalisation has been allowed. But there is more to be done. The EU's 'Everything But Arms' (EBA) programme allows the 49 least developed countries to export any product - originated by them - without any limitation in quotas and notably without any customs duty. Unconditional policies like EBA deliver significant market liberalisation and provide real benefits for developing countries. They are more than mercantilist tools for industrialized countries to get advantages for their own exporters by making limited concessions to trading partners in the developing world. Over the last decade world trade has grown four times faster than world gross domestic product, and for agricultural products, in particular, the trade volumes of commodities have increased by over 270%. It is difficult to envisage the survival of a system of protection and export refunds like the CAP within a progressive opening of international markets.

As the pressures for market liberalisation grow in intensity, a European trade and agriculture policy that originated and evolved to stimulate production and enable the construction of a single European market protected from the dynamics and pressure of international competition has now either achieved its objectives or has become out-dated. Trade liberalisation has extremely important implications in terms of the production competitiveness of farm businesses and the reshaping of public policies to support rural and marginal areas. This is especially the case for the production of commodities for which competitive dynamics are driving significant changes in the pattern of supply, for instance in the European dairy sector.

Meanwhile, deep changes have occurred in the relations between producers and consumers, who are actually increasingly aware of

the costs of an agricultural policy that can no longer be justified in terms of its initial objectives of food security; in this sense it seems necessary to meet new objectives that are less concerned with production *volumes* but provide greater guarantees for the *quality*. Food, agriculture and rural policies will need to be continuously adapted to meet present and emerging pressures and needs including European consumers' and citizens' expectations for public health, social policy and environmental sustainability.

New sensibilities and the new role of public opinion

The changes in European agriculture policy have come about primarily as the result of financial pressures, market distortions that are unsustainable in the long term, and the evolution of a more outward-looking trade policy. During this time, the CAP (originally born from the need to achieve European self-sufficiency in food) has changed into a system encouraging over-production and the intensive use of resources, giving rise to an agricultural economy detached from market dynamics. At the end of the 1980s, this led to the emergence of an economically, financially and commercially unsustainable model.

The reforms taken so far to deal with these problems have been scarcely influenced by European public opinion. It is only in the last few years that the considerations of public opinion have played a significant role in the formation of political agricultural decisions, with the advent of various crises featuring food products (BSE above all) which have given rise to important new consumer sensibilities in relation to food safety and quality and in relation to the industry's attitude towards society's expectations such as the safety, treatment and welfare of animals. This has created a strong drive towards CAP reform and in particular towards the reinforcement of discipline and control measures regarding food safety and the so-called 'conditionality' of support payments. These new directions taken by the CAP have come about as a direct result of European citizens paying closer attention to these issues and of the consequent weakening of public consensus. In a society in which market forces are applicable to all sectors (and in which they form part of a generally shared cultural model) people begin to question the

motives behind giving economic support and protection to farmers on the basis of a system that not only increases market prices, but which also comes accompanied by greater public expenditure.

The evolution of the relationship between the CAP and Europe's citizens demonstrates how the attitude of European citizens (especially in response to a slew of 'new fears') has changed over time. The contrast of two public opinion surveys taken in 1988 and 2002 shows how we have moved from a situation in which 50% of European citizens knew and agreed with the CAP to one in which public consensus in 2002 has declined, with only 32% of people understanding and approving of public intervention.

This fact not only highlights a lack of information about the CAP but marks out a far weaker consensus towards it. The CAP has for years needed to face up to the important new consideration of public opinion. Events have warped the relationship between European political institutions and policies and the public at large, creating a wiser and more critical attitude towards policy-makers. Food scandals on the one hand and episodes linked to the distorting effects of the CAP on the other (such as the creation and subsequent wearing down of surpluses, or in Italy, for example, the vigorous debate on milk quotas) have provided grounds for the public to criticise agricultural policies. Whilst up until only a few years ago the functioning of the CAP was mostly unknown to the majority of European citizens, now awareness is greater, including the implications of the CAP on efforts to reduce world poverty as agricultural protectionism in the developed world is seen as a barrier to the development of agricultural economies in poorer countries.

Towards a new vision

The evolution over the years of the CAP into a more market-oriented policy has meant that the contrast between the liberal and protectionist approaches has become less pronounced.

The internal liberalisation of European agriculture, envisaging a greater opening of Northern European markets towards Southern European producers has been relegated to an issue of

administrative market management, moving away from traditional nationalist perspectives. Meanwhile, the public has not engaged in the debate over the CAP's role in managing markets because of a lack of knowledge which has for a long time led people to view the CAP almost exclusively as a means simply of providing financial support to farmers. Yet the emerging power of public opinion is beginning to have an effect on certain other aspects of European food and agriculture policies. This can be seen in the course of events over the last few years - from the White Paper on Food Safety to the establishment of a European Food Safety Authority, and from the first moves towards sustaining the environment and promoting food quality to their crystallisation as core objectives of the CAP in the Mid-Term Review agreement of 2003.

As the results of the Eurobarometer 2002 in Table 1 show (next page), these are objectives now widely shared by public opinion, which sees them as remaining unrealised. The attitude of Europeans towards the CAP highlights the importance given to safety of food products (around 90%) and protecting the environment (88%).

What we see emerging therefore are preoccupations closest to the needs of the consumer; while the principles which have historically underpinned the CAP (such as supporting agricultural enterprises) are now seen as less important. It seems that the majority of people (6 out of 10) believe that the CAP is ineffective in attaining the new goals.

The greater pressure of public opinion, together with its perception of the inadequacy of the CAP's policy instruments, could quickly change the process of forming political opinions, giving a far more significant role to a better-informed European citizenry. And from this greater public awareness there might arise a strong argument for creating a 'new social pact' between government, farmers and consumers that reflects the free market orientation of the rest of European commerce and the importance of newer issues like food safety, quality and environmental sustainability.

Table 1: What European citizens want from the CAP

“The EU’s Agricultural Policy should currently play its role rather well to.....”	%
Ensure that agricultural products are healthy	90
Promote the respect of environment	88
Protect medium or small size farms	81
Help farmers to adapt their production	80
Favour and improve life in countryside	77
Make European agriculture more competitive	77
Ensure stable and adequate incomes for farmers	77
Protect the specificity of European agricultural products	73
Protect the taste of European agricultural products	73
Encourage the agricultural diversification	73
Favour methods of organic production	72
Reduce development gaps between regions	72
Defend farmers’ interest in their dealings	69

Source: Nomisma elaborations on Eurobarometer 2002

Making the Case for Liberal Trade Policies

Brian Hindley

To make the case for liberal trade policy – to make the case for anything – it is useful to know at least two things. One is the case itself: the grounds on which its claims rest. The second is the reason the target audience does not already accept the argument.

Economic Case against Protection – and Exceptions

The economic case for liberal trade policy does not bear the same message for all countries; and it is straightforward only for countries without substantial market power. The residents of such a country are likely to lose, in aggregate, from actions their government takes to protect domestic production against imports. For such countries, therefore, advocacy of liberal trade policy can be based on a direct appeal to national self-interest.

But economic analysis also suggests that protection might improve the aggregate economic welfare of some countries (as a consequence of terms-of-trade effects; in conditions of monopolistic competition; or through strategic trade policy). The EU and the US fall into this category, but the category probably includes many more countries than these two. For them, a case for liberal trade policy that directly appeals to national economic self-interest is less cogent.

Examination of the source of their possible gains, however, yields a different appeal to self-interest. Any gains that a country with market power obtains from protection are likely to be at the expense of other nations, who typically lose more than the protecting nation gains.¹

¹ Protection can make a nation better off without imposing losses on other countries (for example when there are distortions in the factor markets of the protecting

One way of stating this conclusion is that the economic case for liberal trade policy is based on *world* welfare. Protection by the EU will not always economically harm the EU and US protection will not always harm the US. *World* economic welfare, however, cannot be maximised if either of them – or any other country – protects domestic production against imports.

That gains from protection are likely to come at the expense of other countries opens the door for an appeal to the self-interest of the US and the EU. It is an appeal based not upon the impact on wealth of illiberal trade policies, but upon the health of the global trading system as such. By virtue of their size, they are the major players in the global trading system, and their actions affect the nature of that system. The US and the EU must decide whether they want a world in which they try to exploit their power or, alternatively, one in which their citizens trade freely and amicably with the citizens of other countries. Out-and-out nationalists might choose trade warfare, even though if all try to exploit their power, all are likely to be worse off. It is unlikely, though, that others will choose it. All but out-and-out nationalists are likely to recognise that nationalistic trade policies will lead to nationalistic policies in other countries and other areas of life; and that the results will be unpleasant.

Accordingly, advocacy of liberal trade policy in the US and the EU can be based on the ill consequences for the world of efforts to exploit their power. That is the case for the WTO, viewed as a mutual disarmament treaty.

Doubts

I have a personal sample that bears on the issue of why these arguments meet with resistance. For the past decade or more, I have lectured to students studying the politics of international trade

country). When that is true, however, some policy other than protection will improve aggregate welfare even more than protection. Economics offers no case in which a gain from protection comes from a source other than the losses of other countries *and* is the best policy from a national standpoint. The infant-industry argument, conventionally held to be such a case, is not.

for postgraduate degrees in international relations at the London School of Economics – over the years, 500 or 600 bright and responsive people from all over the world. They are not usually economists. The first five hours of my lectures to them, therefore, set out the economics of protection.

My lectures are designed to set out arguments, not to persuade. The material itself, though, seems to me intrinsically persuasive. Yet while I have never done a formal survey, informal discussion suggests that of those in my audience – the overwhelming majority – who are not initially in favour of free trade, maybe one in ten supports free trade after the lectures. The others still say things like, “Free trade is generally a good policy; but protection is justified in some circumstances”.

That does not make them protectionists, of course – that depends on the range of circumstances they see as justifying protection. It does, though, suggest the difficulty in making the economic case for free trade. Five hours of lectures on the issue is more than the person on the street is likely to get (or want): and if these students are not convinced, what is the chance of convincing him?

One reason the economic case against protection fails to convince is its base in global, not national, welfare. My students do not always see deleterious effects on *global* welfare as a compelling ground for rejecting a policy that improves *national* welfare. I suspect that in this, as in much else, they mirror the feelings of national politicians – which, in fact, many of them are ambitious to become.

Moreover, their assessments of the gains their countries might obtain from protection are often wildly optimistic – as are those of national politicians. They run the risk (or in some cases deliberately adopt the tactic) of supporting policies that can merely be *represented* as improving national welfare, even though the policies are in reality more likely to damage it.

Protection, though, is not only, or even primarily, about economics. Governments using protection are typically trying to solve domestic problems. They are giving gifts or returning favours to members of

particular industries. Economic arguments that say a country might benefit from protection, or that protection does not necessarily impose costs on the economy, merely smooth the way. They do not provide the central motivation for protective action.

Viewed from one perspective, this giving of gifts is politics at its most basic: and national politicians often resent efforts to restrict their ability to use trade policy for that purpose. Social stability will suffer, they say, if they are deprived of the ability to use trade policy to redistribute income within the economy. My students sometimes share this resistance to restrictions on the powers of national politicians; but sometimes try to give the argument a more theoretical underpinning. Often sympathetic to the government side in debates that pit government action against markets, they tend to resist arguments that suggest that in trade policy matters, governments often have only the power to damage their economies.

These patterns of thinking, of course, amplify the nationalistic bias in thought about trade policy. A central function of the WTO – and of the GATT before it – is to counter the nationalistic bias that damages the interests of other countries. If all countries indulged such bias, all would probably be worse off.

Who is to be convinced of what?

Two preliminary points need to be made. The first is that in political terms, trade policy does not need the enthusiastic support of a large part of the electorate. It will probably never get it, either – it is too technical and its implications too difficult to draw out. In democracies, trade policy requires negative assent – that is, it should not upset any important group so badly that the policy becomes a focus for political controversy.²

Trade policy therefore has a conservative bias. The *status quo* is more important than it deserves, on its merits, to be. Those who will

² A signal example of the consequences of failure to obtain such negative consent was the collapse of the OECD's Multilateral Agreement on Investment. David Henderson, *The MAI affair: a story and its lessons*, RIIA, Chatham House, 1999, provides a useful account of the collapse.

lose from a shift in trade policy are likely to be more vociferous than those who will gain: and those who would gain may not even know it – as in the case of new industries that would appear as a consequence of liberalisation, for example.

The second point is that the current situation is much better than many commentators would have us believe. We have a global trading system that is essentially liberal, and unless there is a calamity such as occurred in the early 1930s, it will stay liberal. There is, of course, scope for improvement. This is most obvious in agriculture, but it is also true in textiles and a number of other areas. Various practices could be more tightly controlled: anti-dumping and technical barriers to trade, for example. But the basic elements of a liberal trading system are in place and are unlikely to be displaced: it is the idea of liberal trade that has momentum, not protectionism.

The difficulties of the WTO over the past few years, most notably at Seattle and Cancun, have contributed to a different picture: those failures and the so-called bicycle theory, which says that if the WTO does not move forward, it will collapse. But while the bicycle theory might have applied to the GATT, it is questionable that it is relevant to the WTO, which has in the dispute reached an understanding - a centre of gravity never granted to the GATT.

There is a body of WTO law that is sensible, by and large; and a well functioning legal process to apply it. Success in new trade talks is not necessary to continue or legitimise either law or process. The WTO will not collapse until major trading powers flout its decisions, and that is unlikely to happen in the near future, regardless of progress in the Doha Round (unless, perhaps, in an effort to complete that round).

Of course the world would be a better place if the Doha Round brought agricultural policies under control. Of course it is regrettable that the hypocrisies of the US and the EU should twice have provoked developing countries to break off talks (but better that the hypocrisy should be exposed rather than that negotiations should proceed on the basis of a tacit acceptance of them). And of course WTO negotiations would be easier if developing countries more clearly recognised the economic benefits they would reap from

liberalising their own trade policies, rather than demanding liberalisation from others but rights to maintain their own protection.

In small countries, lacking market power, protection is typically a shooting-yourself-in-the-foot policy. That is the argument that needs to be made in such countries, with analysis of actual cases.

In the US and the EU, to go to the other extreme, protection is often a shooting-yourself-in-the-foot policy; but there can be no presumption that it is, or that careful empirical analysis will always show it to be such. When a policy can be shown to be costly, that should be done. But a sharpening of the perception that a liberal world trading system is a central foreign policy interest of these major trade powers is also needed.

Of these two cases, the second is the hardest to make, but also the most important. If the government of a developing country decides that it wants to shoot its economy in the foot, there is a good case for trying to persuade it to do more sensible things, but, ultimately, if it cannot be persuaded, for letting it pull the trigger. A US relapse into protectionism, on the other hand, would wreck the global trading system.

The US, though, as the leading global economy currently and for the foreseeable future, has a clear interest in promoting global prosperity and economic development. That claim does not seem controversial, inside the US or out. What is needed is acceptance in the US that sensible pursuit of that interest requires a liberal trading system and acknowledgement that if the US itself pursues illiberal policies, a liberal trading system is not possible. That case must continually be pursued in the US.

The EU also has an interest in a prosperous world economy, though it does not always seem to recognise this. The EU sometimes gives the impression that it would not mind if the world trading system collapsed, so long as the US got the blame. Trade, of course, is the one area in which the EU can regard itself as the equal of the US, and the EU tries to make the most of that. Sometimes, though, it ends up looking more like a political antagonist of the US than an economic partner.

Getting rid of the CAP would be the greatest contribution the EU could make to the preservation of the liberal trading system: and the contribution would be even greater if the EU could induce the US to abandon its trade-distorting agricultural support policies as part of an overall deal. This is unlikely to happen in the near future. Supporters of a liberal trading system, though, must keep pressure on the CAP. That requires continual restatement of the simple fact that improving the incomes of European farmers does not require the trade distortions of the CAP (for example if farm incomes are supported through direct transfers, not dependent on output). It also calls for bringing to the attention of EU electorates as frequently as possible the idiocies and costs of the CAP, both those imposed on EU residents and on foreign farmers. Empirical studies are the best way to do that.

There have, it is true, been many empirical studies demonstrating these idiocies and costs, and the CAP is still with us. There is no quick fix.

But that is generally true in trade policy. Trade policies acquire their forms because they represent some kind of domestic political equilibrium. Such equilibria are difficult to change without the help of external events. But the lack of a quick fix does not say that those in favour of liberal trade policies should give up. On the contrary, the prospects for liberal trade policy are good.

The CAP stands out because it is so obviously inconsistent with that liberal backdrop. Focus on such excrescences is useful in limiting the policy itself. But it also reduces the possibility of further such policies appearing, or of old ones undergoing further protectionist elaboration; and it increases the likelihood that the trading system itself will continue to be broadly liberal.

Civil Society Networks in Global Governance: Remediating the World Trade Organisation's Deviance from Global Norms¹

Peter Willetts

The concept of "global governance" embodies an intellectual shift, from analysing states pursuing power in an anarchic system, to seeing many different types of actors mobilising support in global policy-making. Each ministry in each government has its own trans-governmental relations, with subtle differences in priorities from the other ministries in the same government. Each society also generates trans-national relations, for a wide range of non-governmental organisations (NGOs). In the UN system not only human rights, environmental, development, women's groups and other voluntary organisations, but also industrial lobbies, unions, religious groups and all other sectors of civil society, except criminals, are registered to participate in the policy-making process. For more than fifty years, the UN has had a Statute for NGOs, codifying the arrangements for consultative status. Over the years some form of close relations with NGOs has gradually been extended to all the UN's programmes, to specialist UN conferences and to most of the specialised agencies. Only one global intergovernmental organisation stands apart from the UN system and refuses to engage with civil society. It is the World Trade Organisation.

¹ This paper is derived from a presentation to the Colloquium on International Governance at the Palais des Nations, Geneva, in September 2002. The text is available at www.staff.city.ac.uk/p.willetts/CS-NTWKS. The research was funded by DFID.

NGO Networks and the UN System

NGOs form networks, in order to exchange information, to mobilise support, to co-ordinate strategy, to share costs and to have a greater political impact. There are four main types: “umbrella” international NGOs (INGOs), issue networks, caucuses and governance networks. An umbrella INGO arises when organisations in different countries have similar goals and decide to work together in a joint organisation. An issue network consists of a set of NGOs who have nothing in common, except the desire to work together on a specific issue. The prototype was the International Baby Foods Action Network, which brought together doctors, women’s groups, consumer associations, development activists, churches and community organisations. A similar variant is an issue caucus that is focused on lobbying in a particular forum, perhaps temporarily for a single session. When analysing global governance, we also need to recognise a fourth type – NGO governance networks. They exist to promote the *participation* of NGOs in a particular policy-making forum. The oldest is the Conference of Non-Governmental Organisations in Consultative Relationship with the United Nations (CONGO). Other examples are various “steering committees”, “facilitation committees” or “NGO networks” focused on UN bodies, specialised agencies or UN conferences.

Many diplomats have a basic prejudice that NGOs do not belong in the world of diplomacy. Many politicians resent an alternative voice from their country, challenging their policies in diplomatic forums. In particular, politicians angrily reject claims that NGOs represent “the people” in a more authentic manner than governments do. Such sentiments lead to attacks upon the legitimacy and the accountability of NGOs. It is true – in a democracy – that an NGO cannot claim to be more representative than a government nor to have any right to decide policy. However, democratic legitimacy is about much more than government policy being subject to reaffirmation in a general election. Democracy also requires governments to specify what policy they are pursuing, to open the policy to public scrutiny and to allow freedom of expression to everybody in public debate. In any

complex society, it is primarily NGOs, rather than individuals, who articulate the public debate. It is not necessary to be representative of a large constituency or accountable to the general public to have the right to participate in debate. It is actually an enhancement of the governmental process that diverse perspectives can be brought to bear upon policy-making. These principles are also valid at the level of global policy-making. In a democratic world, intergovernmental organisations have to be transparent and open to public debate, articulated by NGOs.

The international economic organisations have not followed the UN's example on relating to NGOs. The World Bank, the International Monetary Fund and the World Trade Organisation do not allow participation in their decision-making bodies. However, they do have other types of contacts. The Bank has deep and extensive relations between NGOs and its staff, up to the highest levels, whereas the Fund has relations with academics, bankers and financial experts, but little contact with other sectors of civil society. The Bank and the Fund, which are UN agencies, have since the mid-1990s greatly increased their transparency and in 1999 accepted the principle of a role for civil society in the production of Poverty Reduction Strategy Papers. In contrast to the Bretton Woods twins, the WTO is a deviant organisation. It is not a UN specialised agency. It does not have a normal policy-making structure. Its secretariat has limited contact with NGOs, mainly for public relations purposes.

The Structure of the WTO

The WTO consists of a Ministerial Conference that normally meets every two years, a General Council in permanent session and a set of specialist councils and committees. All these bodies are open to all member governments. This structure is fundamentally flawed. On the one hand, in technical terms, it is too large and complex for the majority of the membership to handle. Small countries are overwhelmed and cannot follow matters that might be crucial to the future of their development. On the other hand, in political terms, it is too small and unsophisticated. For such an important body, it is grossly inadequate to have one ministerial meeting every two years. Most global institutions have an annual plenary meeting and an

executive council meeting more frequently. The WTO has a very small Secretariat of 550 people, with only 150 of them being at the professional level, and it has a tiny budget of less than \$100 million per year.² The WTO is staffed and funded more like a large NGO than a major intergovernmental organisation.

The Marrakech Agreement, which established the WTO, does provide for relations with NGOs in Article V (2)

The General Council may make appropriate arrangements for consultation and co-operation with non-governmental organisations concerned with matters related to those of the WTO.

This text is nearly identical to Article 71 of the UN Charter. In practice, the WTO has not implemented any consultative arrangements. The problem is political and not legal. There cannot begin to be relations with NGOs, until the culture of secrecy is broken down. At the moment, the debate is about the release of documents. The WTO will become a normal intergovernmental organisation when all its documents become public on the day they are issued. It is argued that full transparency would breach commercial confidentiality, but it is difficult to believe the claim. The WTO likes to think of itself as a technical, economic organisation, but it has to recognise economics, including trade law, is political. Its work has a major impact on many global issues.

Would the implementation of consultative arrangements for NGOs at the WTO make any difference to the outcomes? The opponents of NGOs argue there would be negative effects. Subjecting complex negotiations to public scrutiny would make it more difficult to reach agreement. Positions taken up in secret negotiations can be

² The figure for the total staff is on the web page www.wto.org/english/thewto_e/secre_e/intro_e.htm and the figure of "some 150 professional staff in operational divisions" comes from document WT/GC/W/74 of 18 December 1997, para. 23 (d).

amended without public criticism. While it is true all policy-making, at both the national and the global level, involves political actors making private deals, public debate does not preclude private discussions. However, the culture of detailed secret bargaining over narrow mercantilist assertions of so-called “national interests” is a weakness, not a strength, of the WTO. Greater public engagement would even offer some support for reaching agreement. The general public good of free trade would be more easily asserted against particularist protectionist interests. Another argument against engaging with NGOs is that policy affecting major economic interests, in a system where decisions are legally enforceable through dispute panels, cannot be subject to public pressure. At best this is an argument for global corporatism and at worst it is an argument against democracy. In any case, major interests are also affected by treaty negotiations, resource allocations and standard-setting at the UN, the World Bank, the IMF and the other UN agencies, yet they are all more transparent than the WTO.

The overwhelming argument in favour of NGO participation is that the WTO will continue to have a legitimacy crisis until it becomes a transparent organisation. In addition, NGOs will bring a wider range of perspectives to the table than those which are salient to trade ministries. There are already several non-trade questions that have been allowed to modify the principle of free trade, notably the need to protect public health. Widening the debate further could not make the WTO a forum for policy-making on the environment, poverty eradication or social welfare, but the WTO should not negotiate trade questions oblivious to their impact on such issues. In practice, in other negotiations within the UN system, there has often been strong hostility *initially* to participation by NGOs, but the process has always ended with governments asserting that NGOs have made a valuable contribution to their successful outcome. NGOs add expertise and research from diverse fields of study, communication with marginalised sectors of society, awareness of new issues and access to a wider range of interests. In so doing, they complicate the policy-making process, but they also enhance it.

The change from acting as a technical organisation to recognising its political role links the need for the WTO to become a UN specialised agency, to shift the balance between its technical and its political organs, to strengthen its Secretariat, to increase its “internal transparency”, by making developing countries equal partners in negotiations, and to increase its “external transparency”, by allowing NGOs to participate in the policy-making process. If all these reforms were made, the WTO would not decide matters of trade policy in ignorance of the consequences of its decisions in many sectors of global society.

The Diversity of NGOs Concerned with Trade Policy

Many different types of NGOs have been involved in campaigns on WTO policy. They may be crudely classified into two groups, abolitionists and reformers. The abolitionists are mainly from the radical anti-globalisation movement and wish to close down the WTO. They dismiss market liberalisation and free trade as tools of the transnational corporations and a method for exploitation of the poor. The abolitionists are strongest amongst US trade unions, religious fundamentalists, deep-green environmentalists, neo-Marxists, anarchists, the US right-wing and anti-American nationalists, particularly in France and in developing countries. The reformers describe themselves as the trade justice movement and wish to maintain the WTO. They are strongest among European trade unions and mainstream environmentalists, development activists and religious groups. They say current policies are a threat to the environment, prevent development and actively make the poor more poor. However, they believe the WTO can be utilised to change the structure of the international trading system, break down protectionism in the USA, Japan and Europe and to give developing countries an opportunity to develop through fair trade.

The abolitionists on the left in the US have formed a broad issue network, under the Mobilisation for Global Justice banner and in France through ATTAC, but no comparable coalition exists in Britain. The abolitionists’ strongest intellectual leadership comes from Focus

on the Global South, in Thailand. Overall they are an uneasy coalition, because they have nothing in common other than the rejection of free trade. The reformers have diverse interests, but are a much stronger coalition, because most of the groups support each other's goals. In Britain, there has been detailed research work, notably by Oxfam, effective campaigning, notably by Christian Aid, and joint mobilisation by a range of NGOs working in the UK Trade Network. The blurred boundary between the two categories is illustrated by the World Development Movement, which works closely with the reformers, but tends to adopt the rhetorical style of the abolitionists.

Initially, divisions between the abolitionists and the reformers were not apparent. They worked together to protest at the WTO Ministerial Conference at Seattle in December 1999. Some campaigners proclaimed the co-operation between US trades unions and environmentalists, with the wonderful slogan "Teamsters And Turtles United At Last". However, the violence in the streets of Seattle and at subsequent demonstrations in Washington, Prague and Genoa in 2000-2001, caused the reformers to distance themselves publicly from the abolitionists. The intellectual split became evident in April 2002, when Focus on the Global South denounced Oxfam's report, *Rigged Rules and Double Standards*, as providing "the wrong focus and wrong direction for the movement against corporate-driven globalisation". Since then, the abolitionists have become marginal and the reformers have dominated the public debate. They now need to have their issue networks operating as issue caucuses within the WTO policy-making bodies. This first requires the establishment of a governance network, to ensure effective lobbying can take place and to prevent anybody intent on aggressive demonstrations from disrupting the policy debates.

Reform of the WTO

After the breakdown at Seattle, the WTO was facing a crisis of legitimacy. The failure to reach a consensus at the Ministerial Conference was an internal crisis and the failure to engage with civil

society had generated an external crisis. Since then, the WTO has adapted. Developing countries are gaining a stronger voice in decision-making and the Doha Development Agenda was launched. The links between environment and trade issues have been wisely addressed by the Dispute Settlement Body and the links between health and trade issues were acknowledged in the Doha "Declaration on the TRIPS Agreement and Public Health". The Secretariat is gradually being allowed to engage with NGOs. For their part, a few NGOs have substantially increased their knowledge and understanding of WTO issues.

These changes are just a beginning. Major reforms in attitudes and procedures are still needed. In particular, NGOs will not want to work in a technical manner in negotiating bodies, if there are no political organs to review the progress of negotiations. Many NGOs will not have the capacity to gain technical expertise, if they cannot receive information and engage in greater depth with the Secretariat. The political organs will not be effective for government representatives, if the Secretariat cannot provide political reports, including an ability to raise issues brought to their attention by NGOs. Finally, the negotiators will not be able to construct internal and external legitimacy for the WTO without a normal, fully functioning system that is sensitive to all trade-related issues on the global agenda. Economic globalisation is not separate from political globalisation.

A short paper cannot suggest answers to all these reform questions, but the following steps for the WTO to establish consultative arrangements with NGOs would take the process forward.

- The WTO should grant consultative status to NGOs that have already been approved by the United Nations.
- The Geneva section of CONGO, in co-operation with the International Centre for Trade and Sustainable Development, should convene a meeting to establish a governance network for all

UN-recognised NGOs interested in relating to the WTO.

- The resulting WTO NGO Network should be autonomous from other NGO networks. Its steering committee would have the authority to negotiate with the WTO on the definition and operation of the consultative arrangements.
- The officers and the steering committee of the NGO Network should be politically neutral. They would not adopt positions on trade-related issues, but could publish and distribute joint statements signed by NGO members of the Network.
- The WTO should provide an office in its headquarters building and funds for a minimal administrative staff, to be appointed by the NGO steering committee, to operate the Network.
- The first task for the steering committee would be to draft and adopt by consensus a Code of Conduct for NGOs in their relations with the WTO.
- The General Council of the WTO should authorise the immediate public release of all decisions, documents and reports issued by the Secretariat or any organ of the WTO. Documents tabled by a member of the WTO, might be held back, while negotiations are still under way, if the member requests it.
- The General Council should authorise registered NGO representatives to attend meetings of the Ministerial Conference, the General Council and the other councils. Subsidiary bodies might agree to accept NGO observers.
- After five years, a small Working Group of the General Council, in consultation with the steering committee of the NGO Network, should review the practices and codify them into a WTO Statute for Consultative Relations with Non-Governmental Organisations.

These recommendations are based on the assumption that the WTO cannot just open its doors to anyone who wants to walk in. Even the UN has occasionally had problems about the behaviour of some NGOs, particularly in the Commission on Human Rights. Any consultative arrangements with the WTO will have to be managed, but it will only be legitimate if this is done by the NGOs themselves. It is widely argued in Geneva that the WTO is developing effective informal relations with NGOs and there is no need to adopt a formal system. While there has been a substantial shift from the closed world of the GATT, an informal system will always remain heavily biased towards large NGOs and those based in Europe or the US. A formal system is needed to assist small NGOs, those who do not have contacts in the WTO and those who have not yet developed expertise about the institutional processes. Just as developing country governments need assistance with capacity building to become full participants in the WTO, developing country NGOs need support for their participation. A formal governance network is essential to promote understanding of how the WTO system works, to enable inexperienced NGOs to learn from experienced NGOs and to ensure equal access for all types of NGOs.

Rebranding the WTO: How could the WTO 'rebrand' itself in order to overcome institutional and public relations weaknesses?

Jasmine Montgomery

I would stake my reputation as a brand consultant on the fact that more people in the world have heard of Manchester United than the WTO. For many of those who have heard of it, the WTO has become a lightning rod for criticism from a myriad of quarters. Some see it as the puppet of corporate America, others as an instrument for the imposition of western culture and values on developing countries, as the oppressor of human and labour rights, as the subordinator of environmental concerns to free trade, as a restraint on the economic development of poorer countries and as an organisation shrouded in secrecy that undermines national sovereignty and thus the democratic rights of individuals.

"Many decisions affecting people's daily lives are being shifted away from our local and national governments and instead are being made by a group of unelected trade bureaucrats sitting behind closed doors in Geneva, Switzerland."

Ralph Nader, Who's Trade Organisation?

"From the free-market paradigm that underpins it, to the rules and regulations that make up the Uruguay Round, to its system of decision-making and accountability, the WTO is a blueprint for the global hegemony of Corporate America."

Walden Bellow, Director, Focus on the Global South, Thailand

"The WTO is basically the first constitution based on the rules of trade and the rules of commerce, while

every other constitution has been based on the sovereignty of people and countries.”

Vandana Shivam, Director, Research Foundation for Science, Technology and Natural Resource Policy, India

Its proponents argue that the WTO is one of the world's most misunderstood organisations. That it is the primary mechanism by which the developed world can help bring the developing world out of poverty through the opening of trade barriers. But even they agree that it is in grave need of a shift in public perception. So what could be done to rebrand the WTO?

Let us deal first with a matter of terminology. Some readers will have reacted in shock to the use of the word brand in relation to the WTO. Indeed, given that there are those who oppose the WTO on the grounds that it is manipulated by corporations in their quest to impose brands on an unwilling world, the word may be positively incendiary.

If you are really squeamish just substitute the word 'reputation' for 'brand'. Most of you would admit, would you not, that the WTO has a reputation; whether good or bad. For the brave-hearted, let us make a brief attempt to prove the case that the WTO is indeed a brand.

The easy argument is this. That ours is a world in which practically anything can be a brand. If Singapore and Australia have recently invested in their 'destination brands' as countries, which they have, and if one can quantify the value of the Manchester United brand, which we have (Euros 288 million)¹, then surely anything from David Beckham to the WTO can be a brand.

The tougher argument takes us to the core of what a brand really is. At its inception, branding was a stamp of ownership; think cattle ranchers if you must or recall the first ever trademark that was given to Bass breweries' distinctive red triangle in the company's efforts to distinguish its beer from inferior brews being passed off as Bass in

¹ Football Report, FutureBrand

India. Corporate identities today are still very much marks of ownership. And all sorts of different types of organisations have developed marks of ownership, even those with no tangible assets to protect. Companies whose assets are entirely intangible, consisting as they do of intellectual rather than physical property, have branded their ideas, their way of thinking, their mission in the world and their culture. Professional services companies, charities, academic institutions, political parties, government agencies and think tanks have brands; IBM, Oxfam, Harvard University, the Labour Party, Britain's NHS, and the Foreign Policy Centre. So the WTO's logo certainly acts a stamp of ownership signifying the collaboration of the member countries.

But brands today have evolved beyond simply a mark of ownership or logo. They have become a contract of faith between a company and its customers; a promise of consistent delivery of a product or service in a way that is differentiated from all competitors and that will continue to inspire future demand.

How does the WTO measure up against this higher standard? Firstly, the brand has no consistency; its reputation is highly fragmented depending upon who you talk to, and all attitudes, positive or negative, spike dramatically during international trade summits. Secondly, it has failed to differentiate itself from other similar organisations and its remit and influence is often confused with that of the World Bank, IMF, the UN, the EU and even national governments; the WTO gets blamed for third world debt (World Bank and IMF territory), or for child labour in developing countries (a political issue for the International Labour Organisation and the UN, not an economic issue for the WTO), and for some national trade policies. But it has achieved significant demand amongst its core target market and seems likely to continue to secure demand in the future (recent threats from the Bush administration to quit the WTO if it continues to penalize them for their unilateral stance on issues such as steel tariffs notwithstanding). Almost every country wants to be a member. Since 1995, sixty six countries have joined it².

² Legrain, Philippe: *Open World, The Truth About Globalisation*, London 2002

Measured against a higher yardstick, the WTO is a brand, just not a very good one; yet.

If the WTO is looking for paradigms of multilateral institutions that have a positive brand image, it is tempting for it to look to organisations such as the United Nations World Health Organisation (WHO), or the United Nations Fund for Children (UNICEF), which send out clear messages as to their mission to improve global health standards, or protect children's rights. However, communicating these issues is an easier win – who can argue with Measles Vaccinations – than it is to communicate the various roles of a multilateral such as the WTO. A more realistic comparison would be to address some of the ways in which the broader United Nations, the European Union, or NATO effectively communicate their more difficult messages in a highly politicized environment characterized by highly polarized views.

Investing in brand with a very limited budget

The WTO Secretariat in Geneva consists of around 550 staff³ with a budget of less than US\$80 million a year⁴, of which a tiny fraction is spent on public relations. And there is no brand manager. So how can such an organisation get its message across with minimum expense and maximum effect?

Our research has shown that the financial return on investment for branding is higher in poorly branded categories than in categories that are highly branded⁵. The amount of attention and recognition that a dollar buys a brand in the oil and gas industry, for example, is far greater than in the food and beverage industry. Coke has to spend much more to cut through the noise that is being made by many competitors like Pepsi, Schweppes, Virgin etc than Shell has to spend to be heard above the few highly branded competitors such as BP.⁶

³ See Peter Willetts' essay in this volume

⁴ Legrain, Philippe, 'Open World, The Truth about Globalisation', London 2002

⁵ FutureBrand

⁶ Lauren Henderson, Futurebrand, in *Financial Times*, February 3rd, 2004 'For What It's Worth'

Great news for the WTO. Obviously the WTO spends less on branding than Coke or Pepsi. In fact Coke probably spends on a single ad campaign more than the WTO's entire annual budget. A small investment in the WTO brand today would have the potential to yield a high return.

Furthermore, the soft returns accrued from an investment in branding meanwhile, can significantly impact the effectiveness of a company or organisation. It can help organisations to attract the best talent and lower attrition rates. It can promote interest from external third party stakeholders such as, for instance, external agencies and non-members, and help secure the interest of future ones. A strong brand can help protect an organisation's reputation in a public relations crisis. And finally, strong brand reputation can ensure the distinct values and mission of an organisation are clearly communicated, avoiding confusion on the part of lay people as to the blurring of roles of different organisations.

But what forms should that investment take? Should the WTO take its lead from what other not-for-profit brands have done and launch an ad campaign on CNN, sponsor global music festivals and distribute their CDs on its website, open Free Trade coffee shops all over the world? The WTO could learn lessons from some of the above, to reach out to its stakeholders and civil society in lateral ways. Setting up a programme of mock trade summits for schools around the world in the UN vein, would be instrumental to shaping youth's perceptions of the WTO brand. Or the WTO could reach out to provide training for fledgling businesses in trade negotiations taking inspiration from Shell Oil's Sustainable Development Programme that aims to support entrepreneurs. Or profile-raising might take the form of merchandising – by creating a clothes range with free trade slogans and the WTO emblazoned across them. Some of these ideas may be frivolous; all may be outside of the scope of the WTO's current budget.

So what can the WTO do to improve its reputation or 'rebrand' with a limited budget?

There are seven things that the WTO could do to strengthen its reputation and become a strong brand; close the gap between people's understanding of the WTO and the reality; increase transparency; create an emotionally compelling argument for its *raison d'être*; create and communicate a charter that speaks to the public; reach out to stakeholders and their networks; create communities; and give the WTO a human face.

Closing the gap between people's understanding of the WTO and the reality

What do people think of the WTO? The German Marshall Fund of the United States (GMF) research found that opinion of the WTO, amongst spokespersons from the developed world, was 'moderately positive in all four countries'.

"51% of British respondents, 49% of French, 47% of Germans, and 42% of Americans have a favourable, but not strong, opinion of the WTO. This is reflected in two ways in the data: First, few people in the extreme categories of the response scale ("very favourable" and "highly unfavourable"), and second, respondents give high numbers of "don't know" responses. Twenty-nine percent in the United States gave such responses, followed by 24 percent in the United Kingdom and 22 percent in Germany. Just 12 percent in France gave non-responses, not surprising given the fierce globalisation and trade debates raging in this country."

The GMF research

If roughly a quarter of people (in the US, UK and Germany) do not have an opinion of the WTO then there is clearly an awareness building programme to be undertaken. And amongst those who think

they understand the WTO there are a huge number of misconceptions about its purpose, make-up and capabilities.

The first thing that the WTO needs to do before it can plant a seed of positive association is to rid the soil of the plethora of negative misconceptions with a communications programme designed to make people understand four things:

1. That the WTO promotes international trade not globalisation. Globalisation is an emotionally loaded idea and term. International trade, much less so. Globalisation has prominent, media-savvy, sometimes celebrity detractors. International trade does not. Most of us are aware of the benefits of international trade.
2. The WTO is not in any sense a world government. That it is not run by the US or by a network of corporations in developed countries. That the secretariat of the WTO has no power to make decisions. That decisions are taken only by member states reaching consensus.. Of course this is easier said than done because it suits the member governments to blame the WTO at home for unpopular policies which are not vote grabbers but to which they themselves gave consensus. Member governments must take responsibility for changing this perception of the WTO as a body with independent power. In this sense the WTO is analogous to the EU in that it does not do things to its members, it is a product of its members' decisions.⁷
3. The WTO is primarily a forum concerned with the removal of barriers that prevent people from trading with one another. Unlike the IMF and the World Bank, it does not lend money and so has no responsibility for issues like third world debt. It should ensure that value-loaded issues such as labour and environmental standards are discussed by appropriate bodies such as the ILO and the United Nations. (Preventing a developing world country from employing child labour means persuading that country to prohibit it by law. Achieving this, incentivising it and monitoring it are way

⁷ Brendan May, Head of Corporate Social Responsibility, Weber Shandwick

beyond the capacity of the WTO). Likewise, the WTO made an error in involving itself in patent protection policy and has consequently been tarred with the same brush as pharmaceutical companies accused of profiteering from the HIV/AIDS epidemic in the developing world. The WTO has, in the past, allowed non-trade issues to cloud the waters of its core mission of removing trade barriers. Having clarity of communication means first having clarity of purpose.⁸

4. The WTO is aware of the magnitude of its position in the trade world. Trade rules aren't sexy, but being a major contributor to economic growth and increasing world prosperity is. The WTO needs to have confidence in taking on this responsibility and communicating it forcefully. In short, it must play to its strengths.

INCREASING TRANSPARENCY

One of the major criticisms of the WTO is its secrecy and lack of transparency.

"The WTO needs to do away with its culture of secrecy: in a democratic age, it is simply unacceptable. Even when the WTO does good, it is treated with suspicion because decisions are taken in private"⁹ according to Philippe Legrain, author of *Open World, the Truth about Globalisation*.

Conducting trade negotiations in private is fundamentally at the heart of this lack of transparency. The WTO is improving in this area, but still has a long way to go in terms of inviting appropriate civil society organisations into its discussions. But it is also noteworthy that, to an outside observer, the WTO's communications are peppered with jargon, acronyms and opaque language. Other not-for-profit brands that have effectively improved their transparency are brands such as the International Committee of the Red Cross (ICRC). Traditionally seen as shrouded in legalese and

⁸ From an Interview with Jean-Louis Guérin, Economist at Rececode, September 2004.

⁹ Legrain

unwilling to accept invitations to discuss their issues and agendas with partner organisations, the ICRC simplified their language and became much more interactive and outward focused in their communications. Similarly UNICEF, who prioritises dissemination of information in any crisis situation, will hold regular press conferences, try to publish their assessments on their website, provide names and addresses of multiple contacts and actually answer their e-mails.

*'At present, what is commonly called 'civil society' feels like it has no seat at the table. In an age when many international organisations have opened their doors to NGO representation, the WTO appears to be lagging behind at great cost to its public reputation. It is harder for NGOs to complain about back room negotiations in smoke filled rooms if they are actually in the room.'*¹⁰

For the WTO, increased transparency would involve inviting stakeholder groups such as NGOs into the fold, listening to their issues and establishing two-way channels for dialogue, having a pro-active media strategy with news-oriented delivery of communication services and articulating the WTO's composition, mission and mandate in clear but compelling terms comprehensible to all.

CREATING AN EMOTIONALLY COMPELLING ARGUMENT FOR ITS RAISON D'ETRE

Strong brands work on emotional, not just rational bases. British Airways does not simply promise to get you from A to B, it promises you an experience that has made it 'the World's Favourite Airline'. Apple does not try to sell us just a computer, but a promise of a new and creative way of thinking, and an improved lifestyle.

"People cite compassion and self-reliance as stronger motivators to fight poverty than 'enlightened self interest'" John Audley, German Marshall Fund

¹⁰ Brendan May, Head of Corporate Social Responsibility, Weber Shandwick

The findings of the German Marshall Fund's research that a vast majority of people in the US, UK, France and Germany believe in fighting poverty on moral and compassionate grounds. This tells us that there is a fertile seedbed for any brand in this arena able to plant itself in people's minds as having, at its core, a compassionate agenda.

The best way to spell out the emotional argument is to spell out the alternative. Imagine a Mexican trade minister entering into bilateral negotiations with a superpower like the US. When the US negotiator fixes him with a cold stare and tells him exactly what conditions, favourable or not, he is going to have to accept in order to make the deal, the Mexican has limited choices, and little leverage. That is how trade negotiations were fifteen years ago. Today, smaller countries can band together and apply collective pressure in negotiations with bigger countries.

Fifteen years ago trade negotiators from different corners of the globe brought hugely divergent levels of experience to the negotiating table. Today the WTO provides training and technical assistance to level the playing field.

But to really turn around the hearts and minds of the public, the WTO needs to make it personal. Imagine spelling out the alternative on a personal level for a world without the accomplishments of the WTO.

"We drive German cars, listen to Japanese hi-fis, eat French food, drink Colombian coffee, wear Italian clothes, buy Chinese toys, chat on Finnish mobile phones, work on computers made in Taiwan and use American software."¹¹

Imagine living in Britain without access to such imported products. Or imagine having to pay 40% in import duty compared to the 4% (approximately) import duty; today's low tariffs are the result of WTO deals. Imagine the power of running a series of ads in a campaign with people from developing countries explaining what it is that they

¹¹ Philippe Legrain

produce and the potential value added of exchanging it on a free trade market. Take for instance, a Bengali woman explaining that she sells Jute mats for £3, but protection barriers have raised the price to £5, followed by the strapline: "Free trade = Fair Trade".

CREATE AND COMMUNICATE A CHARTER THAT SPEAKS TO THE PUBLIC

The WTO needs to identify a set of values and guiding principles that will clearly set out its vision in a way that is compelling and motivating. Most of the NGOs, such as Save the Children in their recent 'rebranding' have done this very successfully. Without turning into one, it wouldn't hurt the WTO to act a bit more like some of the NGOs in this respect.

REACH OUT TO STAKEHOLDERS AND THEIR NETWORKS

Every NGO, academic, trade union that has an opinion about the WTO has a network of hundreds if not thousands of people they influence on a daily basis. Clearly there are some of these stakeholders who will never be anything but propagators of negativity about the WTO. But opening two-way dialogue with the less extremist elements is critical. If you don't have a budget for advertising then word of mouth is a powerful, and free, channel.

CREATING COMMUNITIES

Brands like ActionAid have been great at community building. Their web site, for example, engages visitors in debates on topics like conflict diamonds and offers elements of interactivity such as the ability to vote on-line, and contact your MP. Ironically, the WTO has been a powerful force for bringing together disparate groups (such as in Seattle when many different NGOs, university students and people from positively conflicting backgrounds united in protest). Could the WTO turn itself into a positive magnet for the creation of communities, united in positive dialogue around issues of free trade? Such engagement could either be at the public level, or the level of other stakeholders such as NGOs, trade unions, academia and the media.

GIVE THE WTO A HUMAN FACE

In Cancun 2003, Chris Martin from the band Coldplay presented WTO chief Supachai Panitchpakdi with a petition against a new trade treaty that they believed would have a crippling effect on small farmers in developing countries.¹² On that day in 2003 how many people had heard of Coldplay and how many had heard of Supachai Panitchpakdi?

Appointing a head of the WTO from Thailand was absolutely the right thing to do and Mr Panitchpakdi's lack of recognition amongst the general public should not be held against him. But who are the high profile proponents of the WTO? It should be heads of member governments but so many of them are too busy using the WTO as scapegoat to act as ambassador.

So who would be an effective ambassador? UNICEF uses public figures from the worlds of film and music but they might not be appropriate for the WTO. Clearly ambassadors should come from developing not developed countries. In fact, a campaign of 'Unlikely Ambassadors' would be much more effective than spokespeople drawn from the usual proponents of free trade in the West (tempting as it would be to suggest Bill Clinton). Someone like President Lula of Brazil perhaps. Thanks to his efforts, along with others, at Doha, poorer countries refused to accept an unfavourable deal being imposed upon them by richer countries. That deal is now being restructured to offer more concessions to poorer countries. Philippe Legrain suggested Fidel Castro.¹³ Castro views the WTO as a curb on US power which provides an interesting rebuttal to the frequent argument of the WTO as a US puppet (and, by coincidence, the first time Castro shook hands with Bill Clinton was at the 50th anniversary of the GATT in 1998)¹⁴.

¹² Coldplay Rock for the Farmers, MTV Asia, September 10, 2003.

¹³ Interview with Philippe Legrain, 13 September 2004.

¹⁴ Ibid

If we were writing the copy for an advert starring a brand ambassador from Latin America, Africa or Asia it might go something like this:

*'For my country free trade has been a good thing, it has lifted us out of poverty, helped provide our families with opportunities. I will go on fighting to continue to lift trade barriers in agriculture so that the world's marginalised countries can sell their products to the world's most powerful countries on a fairer playing field. **When I want to fight for these issues, I go to the WTO**'.*¹⁵

Rebranding the WTO is not about insulating it from the kinds of criticism it received in Seattle and elsewhere. A strongly branded WTO is likely to be more accountable, more transparent, more communicative, more consistent and more engaging; a better and more effective instrument of positive change in the world. And maybe one day as many people will have heard of the WTO as have heard of Manchester United.

¹⁵ Inspired by Jean-Louis Guérin,

Section 3: Leadership

Why the Public is key to making Trade work for Development

Hilary Benn MP

Public awareness of the problems with the current global trading system has played a big part in focusing the attention of politicians and trade negotiators worldwide on the need for fair trade. As on other issues of international justice, the public can help to challenge vested interests and call for change. Protests about the exclusion of the developing countries at the World Trade Organisation (WTO) Ministerial in Seattle in 1999 were followed by the collapse of the talks. It is no coincidence that two years later the WTO committed itself to put “developing country needs and interests at the heart of the work programme”. Continued public interest is key to moving the issues forward and maintaining pressure on WTO members to realise the commitments they made at Doha.

Growth in support for fairer trade is linked to greater awareness of why development matters more broadly. Globalisation has made the world smaller, and one result is that we have become more aware of the concerns of our neighbours. More than two thirds of people in the UK (67%) state that they are concerned about poverty in developing countries and 71% see trade as more effective than aid in combating poverty (DFID Public Attitude surveys).

Awareness of Trade and Development Issues

The recent survey of the German Marshall Fund highlighted that 75% of people in the UK are in favour of fair trade rules. This was higher than in any other country surveyed. The Trade Justice Movement have been instrumental in mobilising public support for fairer trade in the UK. Trade justice is now one of the issues I am now most frequently written to about as over the last few years the number of letters has steadily increased. These campaigns have

provided focus for the general public to take action. Their record-breaking mass constituency lobby of MPs in June 2003 galvanised many MPs and generated debates in the House of Commons before and after the WTO Trade talks in Cancun. This has been followed up by discussions this year between MPs and supporters of Trade Justice. The growth of fair trade products has also raised consumer awareness of how difficult it is for developing country producers to get a decent price for their goods.

This terrific public interest and support has enabled Britain take a lead on this issue. The UK has been pushing for the reform of the European Union's Common Agricultural Policy and for fairer multilateral trade rules and has also played a central role in bringing trade and development issues to the fore in the run up to the 2001 World Trade Organisation Ministerial and the launch of the Doha Round.

Advancing Debates on Trade

Public opinion and pressure have helped to move the debates forward. For example, NGOs have highlighted the concerns of developing countries about their ability to participate in negotiations on the "New Issues" and this influenced UK and EU positions.

Whilst the public may be largely in favour of the concept of fair trade this is at times at odds with other popular views. First and foremost we need to tackle the protection of developed country markets. Whilst the number of people in the UK concerned that international trade will cost jobs at home is lower than in all other countries surveyed, it is still high. The Government needs to continue to make the case that a job gained in India is not a job lost in the UK. Over the last seven years in the UK every job lost has been matched, and more, by a job gained. The growth of developing country economies has the potential to benefit both themselves and the developed world. Just as the UK benefited from the growth of the Spanish and the Portuguese economies, we will also benefit from the growth of developing countries, such as India. Their growth means more

markets for our goods and a greater range of products for our consumers to choose from.

The costs of protectionism to taxpayers and consumers also need to be made more apparent. The Common Agricultural Policy costs taxpayers about €50 billion a year, plus around €50 billion in artificially high food prices. Together this is the equivalent of over €800 a year on the annual food budget of a family of four. The US farm subsidies are also predicted to cost the average household \$4,400 between 2002 and 2012. Cuts in protection will therefore benefit both the developed and developing world. It is estimated that a 50% cut in protection, by both developed and developing countries, would be in the order of \$150 billion a year. NGOs, such as Oxfam, have been very effective in highlighting these costs.

In recent years, there has been a move away from the anti-globalisation stance on trade to more sophisticated campaigns. We need to further encourage these debates. Attacks on the WTO, as the cause of inequities in the global trading system, are misguided and distract attention from making trade rules fairer. The WTO is the only forum that can make and enforce global rules to tackle trade barriers and trade-distorting subsidies. Without the WTO the global trading environment will be less predictable and will leave developing countries that are marginal players in global trade, at the mercy of more powerful negotiating partners.

Debates on trade liberalisation have also become more developed. Just as NGOs have become less averse to opening up markets, so the Government is increasingly working to ensure that the transition to more open markets is carefully managed. There is greater public support for trade liberalisation than there has been in the past: 47% see it as undesirable versus 80% in the past. The Trade and Investment White Paper: *Making globalisation a force for Good* sets out how it is managed rather than unfettered trade liberalisation that will enable developing countries to capture the benefits from trade.

The success stories in Asia – such as South Korea, Taiwan, China and India – hold many lessons. Countries can harness trade to promote growth and poverty reduction, but only if it is accompanied

by appropriate domestic reforms. In the initial stages, this may require some form of protection, which is why we place such strong emphasis on appropriate Special and Differential Treatment. However, unless protection is phased out, industries fail to innovate and lose competitiveness, as happened in Latin America in the 1960s and 1970s. In the short-term, there will be losers from trade liberalisation and transitional assistance to support economic diversification and provide social safety nets for those who lose their livelihoods needs to be provided.

Furthermore, the opening of developing country markets will benefit other developing countries first and foremost. Around 70% of the tariffs faced by developing country exporters are applied by other developing countries. South-South trade now accounts for more than one third of developing country exports – approximately \$650 billion. The World Bank estimates that over the last 15 years or so, developing countries' own liberalisation has been the main channel for their export growth and encouraged regional integration. Advanced developing countries in particular, need to open their markets to their poorer neighbours. This will help ensure that these poorer countries also benefit from their neighbours' economic growth and give them a greater share in growing South-South trade.

Mobilising Public Support and moving the Round forward

The next stage of negotiations presents both opportunities and challenges. Political will is needed to encourage governments to live up to promises they have made. Progress will largely depend on keeping the pressure on the key global players and the public will play a vital role in this.

Governments need to avoid mercantilist approaches to negotiations, whereby market opening is seen as a concession. Governments therefore need to be reminded of the commitments they have made and that market opening benefits both the country opening its market as it does the country that will be given access. The UK will therefore work to push its partners in the EU and other WTO

members to offer more on the issues of concern to developing countries - Agriculture and Non Agricultural Market Access with Special and Differential Treatment built in.

Support from the general public can help ensure that politicians and officials hear a broad range of voices, and are not influenced solely by vested interests. Vested interests tend to be concentrated and have a disproportionately louder voice. As a result, too often the trade negotiators hear the voices of the agribusiness lobbies more loudly than others. Consumer interest on the other hand is widely dispersed and dissipated. However, it has potential to be better harnessed. For example, while manufacturers will make their views known very clearly whenever trade liberalisation increases competitive pressures, the voices of retailers and consumers, who will stand to benefit, tend to go unheard.

Joined-up international action will keep the pressure on governments to deliver. The Jubilee 2000 campaign exemplifies the effectiveness of campaigning and lobbying governments across the board. At the Birmingham G8 summit, 70,000 people formed a human chain around the conference and forced world leaders to take action on debt relief. The G8 summit in Germany a year later completed that task by agreeing the Heavily Indebted Poor Country Initiative.

Northern campaigns on trade are most effective when they support the priorities of developing countries, as they did on intellectual property rights. NGOs, with the support of developing countries, focused public attention on problems in accessing medicines in developing countries. Awareness was raised on a massive scale. The Dying for Drugs documentary alone had initial audience figures of two million. Public outcry and pressure was instrumental in encouraging GlaxoSmithKline to slash the price of its AIDS drugs for sub-Saharan Africa. This was followed by an agreement on TRIPS and public health just before Cancun. Campaigns, such as on services work less well when there is not a broad basis of support for them in developing countries.

It is not just the NGO-led campaigns that enable the public to play a role in making trade fairer for producers in the third world. Choices made everyday in the supermarket directly impact on developing countries. By buying Fairtrade products we can help to develop the business skills of marginalized producers, increase their access to mainstream markets and help build more equitable trading partnerships between the North and South. Growth in fair trade products has been dramatic in the last few years, moving into the mainstream.¹

Consumers can do much to affect the lot of workers in developing countries. For example, growing consumer awareness of labour standards in developing countries has been a driving force in pushing for their improvement. Cambodia has recently moved to tap the growing market for ethically produced goods. They are working to set themselves apart from their competitors by adhering to higher labour and social standards. DFID – which has recently published a new policy statement on core labour standards - will continue to work with the trade unions, NGOs and business to improve labour standards in company supply chains through the Ethical Trading Initiative.

Product standards are of course necessary to protect consumers but they can penalise developing country produce unnecessarily. For example the EU recently changed its standards on aflatoxin levels in food. The evidence showed that this would reduce the health risk to the EU by approximately 1.4 deaths in a billion. Yet this new standard reduced African exports of cereals, dried fruits and nuts by more than 60% – a loss of \$670 million. In cases like this, consumers and supermarkets need to be aware of the broader implications of the standards they demand.

The public can make trade fairer both by keeping the pressure on governments to deliver on the promises made in Doha and by the choices they make in the supermarket. It is through both bottom up and top down pressure that this trade round will be moved forward. The Government is committed to the development of an open and

¹ DFID has assisted the Fairtrade Foundation's work to enlarge their product range.

rules-based international trading system that fulfils its potential to contribute to the reduction of poverty in poorer countries. The UK will be prioritising work on trade during our EU and G8 presidencies and beyond. The government will continue to work with NGOs and others during this period to keep attention focused on trade and development issues. Continued international public support for the Doha Round is fundamental to ensuring we deliver on our promises and make trade work for the world's poor.

Fair Trade, not Protectionism

Roger Lyons

The British trade union movement has always supported fair trade, with protection and furtherance of rights and standards, rather than protectionism or 'free' trade when it means free of basic rights and standards, whether at home or abroad.

In their debates and conferences, trade unions continually monitor the impact of globalisation on the jobs and communities of the membership and their families. This has developed momentum in the debates leading up to the decision of the Trades Union Congress to back the EU European Social Model, based as it is on a free trade foundation. For most trade unions the internationalisation of industrial production is a fact of daily working life, with millions of jobs both in industries and services dependent on inward investment and/or exports. Whole sectors such as oil, pharmaceuticals, aerospace, automobiles, financial services, information technology and chemicals are so globally integrated, that it has been for some time quite inconceivable to consider unravelling them into separate national units.

Employees have been affected by the new global division of labour and unions recognise the need for international competitiveness and for the quality standards required to survive the intense pressure in every sector. And workers in knowledge-based sectors know that their continued employment in the UK, and their future prospects depend overwhelmingly on having the most skilled workforce in leading-edge activities supplying global markets. Trade unions that have traditionally been less directly involved in international trade, exporting sectors or globalisation, understand that the wealth created in the globalised industrial and service sectors is vital to fund domestic services such as health and education which people in an economically successful country have a right to expect. It is no surprise that the German Marshall Fund 2004 survey found that the

respondents in the UK were so much less hostile to international trade than those in France, Germany and the United States.

In recent years, a major restructuring of manufacturing sectors has been taking place and a number have haemorrhaged serious numbers of jobs. The UK steel, textile and engineering sectors have been severely down-sized, with an average of 10,000 jobs lost to manufacturing each month. As job cuts and site closures continue to buffet sectors and firms that have survived earlier pressures, made themselves internationally competitive and produce quality products and employ a highly-skilled work force, the free trade area of the European Union does not have a level playing field in employment rights or in the processes for closing a plant. For example, Renault in Belgium and Marks and Spencer in France faced more demanding requirements than they would have done in the UK. The introduction of the new Information and Consultation Directive in March 2005 should go some way to providing advance warning and allow for consultation on alternative options to the employer's intended action. The agreement at the Warwick Labour Party National Policy Forum in July 2004 on action regarding public procurement issues will be of assistance. The continued commitment of the Government to strengthening skills training will reinforce the competitiveness of the UK workforce. Skills shortages need to be targeted and the skills of the existing work force enhanced, not only through national strategies, but through the Regional Development Agencies and the devolved administrations, all of which are receiving significant governmental support. The new Sector Skills strategy must tackle any UK weaknesses, which are closely linked to investment and expansion decisions.

Skills training is on the agenda of almost every country. Not only the developed countries but economies such as China, India and Korea, are producing massive and increasing numbers of technically competent graduates. Within the EU, employers and agencies in most countries are expected, usually by law, to provide training plans and finance before they are allowed to implement plant closures or large-scale redundancies. Skills are very much linked to productivity, and Britain cannot afford to be complacent. We have suffered under-investment compared with France and Germany, as

well as the United States. But we also have skill shortages, with far too many of our people lacking the skills required by a modern economy. There is now a consensus in the UK that skills training is vital and the social partners have given it priority through the 'Skills Alliance' with Government. A better trained work force has less to fear from international competition and especially the EU free market. And re-training backed by extra resources in the face of major redundancies would bring the UK closer to the European Social Model. The key is to resist the slide of redundant workers into the ranks of the 'economically inactive.'

Whilst measures may assist in providing a perception of a fairer trading environment within the EU, the trade union movement has become increasingly concerned about the failure at the international level to link trade agreements with core employment rights and labour standards. This is exacerbating opposition to "free" trade, for, it is argued, how can trade be "free" if the workers in many countries are denied basic rights?

Core labour standards are defined by the international Labour Organisation as freedom from child labour; from forced labour; from discrimination at work; freedom of association (i.e. trade union recognition); and freedom to bargain collectively. These core labour standards are based on eight Fundamental Conventions of the ILO, and there is an ongoing campaign to encourage governments to ratify these Conventions. The UK is signed up to these, but there are still outstanding matters regarding implementation and compliance which trade unions are continuously raising with the Government. On the international trade front, the TUC is campaigning for the Government to adhere to the core Conventions in its policies on trade agreements and aid policies. This would involve supporting the principles of the core Conventions publicly, and also ensuring that trade agreements, such as WTO treaties, embody the core labour standards. Unfortunately, the Government has not formally committed itself to action in support of the core labour standards in policy, nor has it undertaken to make trade agreements conditional on core labour standards. The TUC was represented within the UK Governmental delegations to the WTO talks in both Cancun and

Doha, and experienced first-hand this reticence by the UK Government.

On 6 July 2004, the DTI published the Trade and Investment White Paper "Making globalisation a force for Good." This followed several months of consultation, including the TUC and individual unions, including participation in a series of DTI round tables on various aspects of the white paper. Discussions were held directly with the Secretary of State, and both the TUC and individual unions welcomed the level of consultation and involvement.

The resulting White Paper included a positive section on offshoring, echoing many of the concerns raised by trade unions about assessing the case for offshoring more rigorously and against other criteria than mere cost. We have repeatedly argued that the so-called advantages of offshoring would turn out to be questionable. Initial savings on pay clash with annual employee-attrition rates in countries like India, of 40% to 50%. Factors such as poor civil infrastructure, political risk and abuse of data protection legislation are just a few others of concern. So I, for one, am unsurprised that the Incomes Data Services survey of October 2004 found that 58% of UK call centres plan to increase staff and only 5% said they would make cuts. Whilst offshoring and outsourcing will continue to increase employment in low-cost developing world locations, there simply is no reason why the UK should not also benefit, through quality, local expertise and local knowledge, flexibilities, training and efficiencies. This sector is an admirable example of a service sector, currently employing over 800,000 workers in the UK, growing in parallel, and, indeed, sometimes in partnership with increased globalisation and freer trade in services. The UK lost considerable sectors of manufacturing to low-cost producers offshore over the last three decades. But in services, the UK is showing more dexterity, which may help to explain how badly the United States is responding to double whammy losses in both manufacturing and services in recent times. A significant factor has also been the more proactive role of the UK Government in responding to union concerns, than the Bush administration.

The White Paper was excellent in its response to points raised about retraining and job creation, and about ensuring labour standards are established for those workers taking offshored jobs. But there was only a small section on core labour standards generally, which failed to do justice to the issue, or the efforts made by the unions to input ideas during the consultation. In launching the White Paper Patricia Hewitt, the Secretary of State for Trade and Industry, repeated the government's belief that core labour standards had been used in a protectionist way, but failed to provide any evidence. Although the document affirmed Government support for core labour standards, it did nothing to advance the issue.

At the launch of the trade White Paper I raised this crucial issue with the Secretary of State, and following the launch on 6 July I wrote asking her to set out how the Government's commitment to promote core labour standards would be related to multilateral negotiations on trade and development issues. I also asked her to produce any specific examples of complaints from developing countries about the use of ILO core labour standards as non-tariff barriers to trade. On the 23rd July, she replied to me as follows:

"Dear Roger,

It was good to speak to you on the occasion of the launch of the White Paper on Trade and Investment earlier this month. Thank you for the letter of 6 July following up on the points you made then regarding UK Government's commitment to the promotion of core labour standards.

In your letter you ask how the Government's commitment to promoting core labour standards can be related to multi-national negotiations on trade, aid and development issues. You also ask for further information regarding concerns from developing countries that labour standards issues could be used as non-tariff barriers by developed countries.

Firstly on trade, we do not believe that the WTO should impose minimum labour standards. Trade and labour is not part of the WTO mandate and we remain opposed to the

inclusion of labour criteria in WTO agreements. Reactions by developing countries at Seattle and Doha, and a general reserve on this issue from developing countries since then, has shown that this continues to be a sensitive issue for the sovereignty of these countries. At Doha, we and others, tried to launch a modest agenda of dialogue between the ILO and WTO on labour standards but developing countries rejected this out of hand. We do think it would be useful for the WTO to develop closer links with the ILO and we will continue to push forward for reciprocal observer status between these two institutions.

However we cannot force the issue of labour standards onto the trade agenda, and we therefore continue to believe that the promotion of the core labour standards in the trade arena can be best achieved via an incentive driven approach. The EU GSP for example, provides additional preferences if certain social and environmental standards are met. The Cotonou Agreement encourages enhanced cooperation in the trade and labour standard area and various bilateral agreements also encourage the promotion of the core labour standards.

In addition, other international institutions can play an important role in this arena. The ILO is obviously the key institution in this respect. The ILO's World Commission report published earlier this year includes a number of recommendations relating to the promotion of the core labour standards in the context of a wide-ranging assessment of the social dimension of globalisation. The UK has participated actively in discussions of the report and its follow-up at the ILO Governing Body and at the recent ILO conference. In doing so, we voice our support for the ILO's work in promoting work as a key route out of poverty and for the universal ratification of the core labour standards.

On aid and development, as you will be aware, the Department of International Development (DFID) has recently published a paper on Labour Standards and

Poverty Reduction. The paper argues that effective and well-judged implementation of labour standards can play an important part in the reduction of global poverty and in achieving the Millennium Development Goals. It also outlines ways of putting this approach into practice. This agenda for change includes supporting labour standards and policy reduction through: policy dialogue, technical assistance and capacity building; alliances between labour movements and workers in the informal economy; international frameworks to address human rights violations; and a global coalition for poverty reduction which includes the international labour movement.

DFID already pursues its poverty reduction goals through programmes which support the promotion of the core labour standards. This includes a voluntary contribution to the ILO of £15 million between 2001-6, in addition to supporting a number of ILO programmes at national level. DFID also funds trade union and non-governmental organisation projects such as the UNISON/SOLIDAR programme to create a global network to empower civil society and trade union activists to engage in dialogue with international institutions such as WTO and the World Bank. And through the Ethical Trading Initiative, DFID is helping business, trade unions and non-governmental organisations to work together to reduce poverty through better labour standards in company supply chains.

I hope this letter demonstrates the importance that we attach to the promotion of the core labour standards worldwide.

Best Wishes,

Patricia Hewitt.”

After consultation with the TUC I replied to the Secretary of State on 8 September stressing the TUC's concern that the WTO agreements do not undermine ILO Conventions (especially those on core labour

standards). I explained that we wanted the incentive-based approach to labour standards of the EU's bilateral trade policies to be incorporated into the WTO. I explained how I did not understand why the opposition of developing country governments to incorporating core labour standards in trade agreements should preclude the UK Government expressing its support for the policy. How else will we change the minds of the governments who are currently opposed, but by arguing the case? I reminded her of how the international trade union movement in both developed and developing countries is clear in its support for the implementation of core labour standards globally and I again asked her to provide any concrete examples of developed countries using core labour standards as a tool of protectionism. On the 4th October, Patricia Hewitt replied to me in the following terms:

“Dear Roger,

Thank you for your letter of 8 September about labour standards in relation to the WTO and the White Paper on Trade and Investment.

In your letter you say that WTO agreements would not undermine ILO conventions (especially those on core labour standards). The UK fully concurs with this view and we do not believe that the net effect of the current development round will be to undermine the core labour conventions.

Experience has shown that our partners in the WTO simply are not willing to discuss labour standards in that forum. Nor does the UK believe that the WTO is the proper forum for discussions of this kind. The ILO, which includes representatives of employers and employees as well as governments, is the UN body specifically mandated for the setting and monitoring of international labour standards. Having said this, as I stressed in my letter to you of 25 July, we have argued in favour of greater coordination and information exchange between the WTO and ILO.

In that letter, as in the White Paper, I outlined the numerous points where the UK engages actively to encourage compliance with ILO standards in developing countries. These demonstrate the commitment of the UK to actively promote core labour standards and should help to allay your concerns that the WTO development round of negotiations will have a negative impact on core labour standards. The EU is the largest trade bloc in the world and the final destination of the largest share of LDC exports. The GSP system, which ties trade preferences to the implementation of core labour standards, should not be dismissed. It is a major force for good.

As you recommend, the UK is working to raise awareness on core labour rights in developing countries, although this work takes place outside the WTO. In addition to the elements outlined in my earlier letter, one small but practical example is that we could include reference to the Core Labour Standards in pre posting training for commercial staff and are looking at other ways to raise awareness of the CLS with our posts overseas and to encourage them to share these with business.

I very much hope that this letter will serve to reassure you that the UK is making every effort to support the promotion of core labour standards across the world. I remain grateful for your input on this important issue.

Best wishes,

Patricia Hewitt.”

I heartily endorse the Government's actions to encourage compliance by developing countries with ILO standards, as outlined in Patricia's letters.

However, significant tangible weaknesses remain. Firstly, the “greater coordination and information exchange between the WTO and the ILO” is purely advisory, without any effective machinery to

integrate the intent of the two organisations where practices are in conflict. Secondly, a number of developing country governments, including for example India and Colombia, have formed coalitions in trade discussions aimed at excluding core labour standards from mutuality provisions. The same goes for environmental and health and safety standards.

Secondly, I recall for instance, the delicate negotiations with the OECD over South Korea's application to join the "developed" nations "club." To achieve this, South Korea had to publicly abandon legislation and policies that provided inferior rights and safeguards to those promulgated through the ILO and the OECDs Guidelines for Multinational Enterprises. Eventually, South Korea bowed to pressures, complied with the "rules" and joined the "club" throwing restrictive legislation overboard as part of the entry deal. Unfortunately because WTO and related negotiations are not as accountable as OECD negotiations, many developing country governments can continue to flout the best interest of their own citizens, as represented through their own trade unions and non-governmental bodies. This will be reflected yet again at the worldwide TUC congress (ICFTU) in Japan in December 2004, when unions from such countries will again demand universal application of Core Labour Standards as part of a fairer system for international trade.

Thirdly, there are also those countries which as acts of state policy, deny freedom of association to their peoples, and are attempting to breach international standards in transparently flagrant form. The most obvious example is China, where free trade union rights are explicitly and brutally opposed through the full force of the police and the armed forces. Democratic trade unions in Hong Kong, now of course technically part of China, do not understand how the world community can tolerate such blatant abuse of the right of freedom of association, and expect movement on the human rights front as China expands its exports, often at the expense of redundancies for workers in other countries who have received the protection of CLS. Britain is significantly increasing its trade with China, and a special delegation including the TUC and the CBI, led by Patricia Hewitt, the Secretary of State, visited China in October 2004, with the TUC

representatives particularly interested in movement on human rights and freedom of association.

Cynics may say there is nothing useful that can be achieved in the short-term, given the influence of China on world trade. Nonetheless, the concerns of the global union movement that ILO Conventions are universally applied, will be centre-stage at the world-wide TUC congress (ICFTU) in Japan in December 2004. Rampant globalisation and trade liberalisation should not be allowed to destroy the progress that has been made in much of the world, where worker-to-worker solidarity transcends national boundaries. Global Councils have been established by workers' representatives and their unions, often also involving the employer, within many multinational companies. The Global Union Federations for each sector are developing strategies and implementing action programmes which are supportive of fair trade, and nowhere smack of protectionism. I cannot over-emphasize the importance of this issue for British trade unions, their seven million members, and the supporters of fair trade across the labour movement. The support of trade unions, their members, their members' families, and their communities for trade liberalisation depends on social values being placed squarely at the heart of WTO and international trade negotiations. If (fair) free trade, with reasonable protections, is to prevail over naked protectionism, the UK Government needs to ensure Core Labour Standards are given equivalence to any other basic requirement in all negotiations – multilateral or bilateral.

And at the EU level, a level playing field is essential to reinforce the European Social Model, which in turn should guide the EU trade negotiators at international level. For Britain, and, indeed, Europe's unions to continue to support freer trade requires a recognition of their social rights. In democracies, people can turn to extremes if they feel threatened and their voices are excluded. Fear is a potent factor. It is not enough to just repeat the mantra that 'free trade creates more jobs for all.' That's why the unions are right to link freer trade with fairness. Not only fairness for those in developing countries, but just as important for those in the developed world too. Support for trade liberalisation must be accompanied by safeguards to protect workers from exploitation and to prevent unscrupulous

companies encouraging a “race to the bottom” in global labour standards.

In the meantime, the progress on employment rights agreed between the UK Government and the trade union movement at Warwick in July needs to be taken forward, and recognition given to the justifiable concerns raised by the TUC in support of a level playing field across the EU. Thus will progress be made, taking fully into account all the real forces at play in the international economy. Of course, from time to time there will be disputes between developed countries on what constitutes unfair non-tariff discrimination on certain products. However the firmness with which the UK and the EU fought back on the US steel protectionism and on the other hand, how European Airbus has been allowed refundable launch-aid to level the playing field with Boeing receiving as it does, more than equivalent assistance, augurs well for the management of the overall international trade regime. Certainly, the trade union movement has every reason to believe we could move further towards a “level playing field” if the will is there, and we do not take our eye off the ball. The future prosperity of the millions of people we represent depends as much on making trade *fairer*, not just *freer*.

Driving liberalisation: companies or the consumer?

Herbert Oberhaensli

This paper aims to reassess arguments about who gains from liberalisation and globalisation, and why business as a whole – particularly large international companies, may not always be at the forefront of drives for worldwide market-opening. Firstly, it argues that consumers are the major winners from liberalisation, but their interests are rarely discussed in the media and politics, and even less put forward at trade negotiations.¹ Secondly it demonstrates that there is no single business (supply side) interest. On the contrary business interests are defined according to sectors and, at times, single firms. Some win, some lose from liberalisation. Only in the long-term, does the picture get a bit more “harmonious”, with business interests becoming better aligned with consumer interests, for reasons such as increased purchasing power and more value-for-money/work for employees with unchanged wages. In this sense, reducing trade distortion will be a key contribution to rendering trade fairer for all.

A brief consumers’ perspective of trade liberalisation

The traditional rationale for the negotiation in GATT and WTO has been market access for exporters, non-discrimination and national treatment. Liberalisation is seen as acceptable as long as there is reciprocity; a concept that turned out to also be instrumental for the proliferation of preferential trade agreements.

Although economic analysis demonstrates that this argument is fundamentally wrong, or at least an over-simplification of more

¹ “The compelling case for unilateral free trade carries hardly any weight in business, politics and media”, Paul Krugmann; What should trade negotiators negotiate about? A review essay; *Journal of Economic Literature* 35,1997; pp. 113-120

complex realities, the practical outcome – the success of consecutive GATT and WTO negotiation rounds – has been surprisingly positive. There are, however, signs that progress in multilateral liberalisation with this basically mercantilist mindset will become increasingly difficult.

There is therefore a need for a different approach, one that starts from a real understanding of the benefits which derive from import liberalisation. This is particularly true for consumers of the importing countries.

Historically, the case has been made time and time again. For example, in 1901, it took an Australian an average of 356 hours – or approximately two months – to earn enough money to buy a bicycle. By 2001, this had been reduced to less than two days work – or the equivalent of 12 hours.² Similar examples exist for thousands of other products, and for all countries which have partaken in market opening and technological progress.

Four elements lie behind this huge progress: local liberalisation; international trade; technological and organisational innovation in business. All of these elements are interconnected: restrictions lead to less innovation; lack of competition in an open market leads to fewer efficiency gains; and ultimately lack of efficiency and innovation lead to little growth in prosperity. It is prosperity for all that actually counts, not more exports *per se*.

But do consumers risk being out of job and revenue because of more efficiency everywhere? Again, the experience of the past 40 years indicates otherwise. From 1965 to 1982, it is estimated that in manufacturing and services worldwide more than 18 million net new jobs were created in average per year. Once market opening started to accelerate, worldwide job creation increased in pace, too. From 1982 to 1999, 34 million net new jobs were created on average per year worldwide.³

² Australian Bureau of Statistics.

³ Net new jobs means total jobs created less those that disappeared over the same period. Europe is the only region that did not participate in the job gains – because of internal rigidities. Hauser, Heinz; Oberhänsli, Herbert; Globalisierung schafft

Consumers are winning twice from market liberalisation: they become more prosperous due to a higher purchasing power (the 12 versus 356 working hours for a bicycle); and greater levels of choice. The standard bike in 1901 had just one gear, brakes that only worked if there was no rain and seats that caused pain after ten kilometres. Today's bicycles are offered in variants adapted to the 10 or 20 different situations you want to use them in and are also safer and much more comfortable. In fact, in the last century prosperity from lower prices and more efficiency, as well as choice have grown exponentially.

Not only does liberalisation affect wealth creation but it can also have an impact on income distribution. In the words of two experts: "Protectionist practices hurt poor people, through higher prices and lower quality products. Poor people benefited from the opening of competitive markets in India in the early 1990s. Until then the population was effectively subsidising a large part of the domestic private sector, which was selling low quality products at high prices – made possible by severe quotas and high tariffs."⁴

Can similar gains also be expected from future liberalisation? My fellow contributor, Patrick Messerlin, has made some calculations based on 22 protected products – ranging from manufactures such as cement, steel and textiles to agricultural products such as cereals and sugar to a few services such as air transport and telecom. Liberalising imports of these 22 products into Europe would lead to a gain in consumer surplus (i.e. actual wealth and purchasing power) for European consumers of € 50-60 billion per year.⁵ In addition, if other countries – industrialised and developing – were to liberalise their imports, total gains of consumers in both poor and wealthier countries together would reach amounts of 5-7 times the European gains.

Arbeitsplätze (Globalisation creates additional jobs); in: WTO-News; University St. Gallen February 2002; www.wto-news.ch.

⁴ Paul Martin and Ernesto Zedillo; Unleashing entrepreneurship – Making business work for the poor; report presented to the UN Secretary General in March 2004; p. 14.

⁵ Patrick A. Messerlin; Measuring the Cost of Protection in Europe; Institute for International Economics; Washington D.C. 2001

Significant gains would be achieved in particular if agriculture in OECD countries were comprehensively liberalised. The total support estimate for 2003 amounts to US\$ 350 billion⁶, with approximately half this figure coming from the consumers' pockets, and the other half from taxpayers. In other words: a bread-winner for a four-member family with the average EU-15 worker's income worked between 120 and 130 hours each year to pay the actual market value of the farmers' share of annual food purchase; he/she will have to work an additional 65 hours to finance the total subsidy equivalents of the Common Agricultural Policy.

While these figures demonstrate how much European consumers stand to gain from EU liberalisation, developing countries also have their share of responsibilities. First and foremost, more needs to be done in their own neighbourhoods, namely through regional agreements. As William R. Cline has shown, by applying "plausible protection cuts, the developing countries' own liberalisation of agriculture generates 80 percent of welfare gains in that sector."⁷

Of course, freeing trade is not a cure-all, but it helps. Furthermore, liberalisation does not mean a world with no rules at all – but rules for product safety, competition rules and many other state regulations that do not discriminate against foreign products.

Industry and market opening

"A businessman is always under the necessity of adjusting the conduct of his business to the institutional conditions of his country. In the long run he is, in his capacity as entrepreneur and capitalist, neither favoured nor injured by tariffs or the absence of tariffs."⁸

In the past, protectionism was one of the reasons why companies invested abroad. The result was two-fold. First, to a great extent it was only the bigger companies that could consider this option,

⁶ <http://www.oecd.org/dataoecd/32/23/32360507.xls>

⁷ William R. Cline; *Trade policy and global poverty*; Institute for International Economics; Washington D.C. 2004

⁸ Ludwig von Mises, *Human Action: A Treatise on Economics*, The Foundation for Economic Education, Inc. 1949.

largely because it is easier for large companies to adjust to the realities of fragmented markets. Second, once there are industrial structures established behind barriers of protection, opening up once again drives up the cost for readjustment.

Market opening can produce opportunities for more efficient industrial structures. But first and foremost, it brings about much more intense levels of competition. In that sense, it is for many firms more of a threat than one usually might think. The last 10 years of intense globalisation are a dramatic illustration of this. Size is no longer a guarantee for a place in the market as illustrated by the listings of the top 500 firms in Fortune magazine. While in 1960 it took 20 years for one-third of the 500 firms to disappear off the list, by 1998 it took only 4. There are other reasons why industry is not keen to drive market opening. Some companies use the "infant industry theory" to justify the need for protection, a theory that derives from the work of Friedrich List, the German economist who advocated the need to protect new economic sectors at an early stage. As the table below shows, the theory was quite fashionable in the 19th and early 20th century.

But while the concept may have applied for large economies, provided the ladder was kicked away quickly, this was less the case for smaller economies. Companies like Nestlé from tiny Switzerland never had a large enough domestic market which would justify protection. Nestlé's first product, for example, the infant cereal "Farine Lactée Nestlé" was marketed in seventeen countries on five continents only six years after its invention.⁹

⁹ Contrary to popular belief, Britain's market lead that enabled this shift to a free-trade regime had been established "behind high and long-lasting tariff barriers" (P. Bairoch, *Economics and World History--Myths and Paradoxes*; Brighton, UK: Wheatsheaf, 1993, page 46); the same is true of the United States.

**Average tariff rates on manufactured products for selected countries
(weighted average; in percentages of value)¹⁰**

	1820	1875	1913	1925	1931	1950
Belgium	6-8	9-10	9	15	14	11
France	R	12-15	20	21	30	18
Netherlands	6-8	3-5	4	6	n.a.	11
Russia	R	15-20	84	R	R	R
Spain	R	15-20	41	41	63	n.a.
Sweden	R	3-5	20	16	21	9
Switzerland	8-12	4-6	9	14	19	n.a.
United Kingdom	45-55	0	0	5	n.a.	23
United States	35-45	40-50	44	37	48	14

R = numerous important restrictions on manufactured imports; therefore average tariff rates are not meaningful.

Today, the infant industry argument is still being used in some industrialised countries, but often to justify tariffs for rather aged infants that can threaten governments with political pressure. And it is still this basically mercantilist thinking that leads negotiators in WTO and other trade agreements to argue that opening one's own market is to some extent a "sacrifice".

Is advocacy for trade liberalisation a top priority for the business community?

Against this background, let us have a look at business involvement in multilateral trade negotiations – an anecdotal rather than a systematic overview. Peter Naray from ITC, describes the impact of business disengagement as follows: "In more than half the world, business interests are not sufficiently integrated into national trade negotiating positions. This can lead to governments agreeing to

¹⁰ Source: P. Bairoch, *Economics and World History--Myths and Paradoxes*; Brighton, UK: Wheatsheaf, 1993, table 3.3, 40.

trade rules under which, afterwards, their firms may not be able to do business efficiently.¹¹

Informed and focused business advocacy could help countries conclude beneficial agreements. This is particularly the case for developing countries which, due to the lack of appropriate business advocacy mechanisms and culture, are missing important opportunities. In the developing world, the voice of nongovernmental organisations (NGOs) on trade issues often comes through too loudly and articulately. Meanwhile, the views of the business community are hardly ever heard.¹² According to Naray, "This deficiency, (i.e., the lack of adequate presence of business) represents a danger to the proper functioning of the multilateral trading system".¹³

A few illustrations of the extent to which business is disengaged include the fact that companies no longer have lobby structures in Geneva. The International Chamber of Commerce (ICC) office was closed some years ago to save costs and neither the European Round Table of Industrialists (ERT) – the 45 largest companies of Europe¹⁴ – nor the US Business Round Table – ERT's equivalent in the US – are present in any formal way in Geneva. The meetings of the ERT Foreign Economic Relations group in Brussels – the group designated to follow the WTO negotiations – on average tend to attract no more than five corporate participants.

Once again, Peter Naray argues that the business sector has generally dealt with multilateral trade negotiations poorly for a variety of reasons including: the fact that they find it difficult to identify the business implications of the complex multilateral trading system; its

¹¹ Peter Naray (ITC); Invest in Business Advocacy for WTO Negotiations in: *International Trade Forum*, Issue 2/2003; from: <http://www.cacci.org.tw>.

¹² ITC Executive Director J. Denis Bélisle at the Nairobi March 30-31 2004 "Regional Conference on Business for Development". ITC, the UNCTAD-WTO sponsored International Trade Center, offers practical, trade-related technical assistance to exporting small and medium-sized enterprises of the developing and transition world.

¹³ Naray, op. cit.

¹⁴ ERT is often described as the most powerful lobby group for globalisation in Europe – both based on the importance of the companies and the personal involvement of CEOs and Chairmen.

reluctance to invest in business advocacy related to trade policy because of the uncertain 'rate of return'; the lack of mature, credible and well-informed business institutions; and the absence of a 'business advocacy' culture.¹⁵

Finally, the results of the German Marshall Fund's survey which form the backdrop of this book show how there is still a misperception that big business is both the main winner and driver of trade negotiations. For this reason, stronger business involvement in these processes may even become counterproductive – at least in the short term. A situation in which individual high profile companies decide to come out in favour of liberalisation will tend to expose them to hostile reactions from a still growing number of anti-free trade groups. "In this context, less and less political (and, for that matter, industry) leaders are expressing their unequivocal and unambiguous support for basic market principles and liberalisation. Leaders in the developing world usually sit on the fence and watch what is going on."¹⁶

The need for a broad long-term perspective

There is a need for industry to get more involved in advocacy in favour of free trade and the liberalisation of imports. To do so it will need to go for a more comprehensive (i.e. multi-stakeholder, non-sectorial and global) and long-term perspective, and to think beyond the terms of WTO reciprocity. There is a broader perspective: trade between two individuals or countries, entered into freely, is not a "concession". It always results in benefits to both parties. Otherwise, why would they choose to trade?

There is little business can do to help negotiators with the short- and medium-term negotiation tactics. In fact, business should avoid participating in the – at times – bizarre cycles of hysteria and euphoria of negotiation rounds.¹⁷ These events may be necessary

¹⁵ Naray, op. cit.

¹⁶ <http://humanglobalization.org/facts/factsChapters.htm>.

¹⁷ The last period of excitement: just before the summer break for negotiators in 2004: the usual language, if there is no step forward the whole negotiation will fail and the

for the negotiation dynamics, they may bring some excitement to the life of negotiators, but they cannot justify and motivate active and sustained advocacy of business for free trade.

There is nothing new about the long-term aspects of trade liberalisation outlined in this paper. As J.S. Mill put it, trade barriers are "chiefly injurious to the countries imposing them."¹⁸ Industry may win from the liberalisation of imports and lower supply prices in a similar way that consumers do. Philippe Legrain gives a useful example in his book *Open World: the impact of recent measures to protect US steel manufacturers for downstream firms and workers*. In his words: "Twelve million people work in US steel consuming industries, compared with only 165,000 in steel. One study sponsored by a group of steel consumers suggests that 20 per cent import duties would save fewer than 9,000 steel jobs but cost over 74,000 jobs in other sectors of US industry."¹⁹

Obviously, imports will increase, i.e., competitors abroad also win from import liberalisation. In Messerlin's scenario, following liberalisation their sales would go up by about € 45 billion. This is inevitable. Yet, since they also have production costs, their actual gains in "producer rent" would only be a fraction of this amount – and only a fraction of the consumer gains in the importing country. But the amounts matter nevertheless. In the case of agriculture, including in the case of escalating tariffs, a certain percentage of this additional trade would come from developing countries. With this in mind, at the October 2002 meeting with business on the Global Compact at the UN in Geneva, UNCTAD Secretary General Rubens Ricupero stressed that "the main corporate social responsibility of big firms was advocacy for free trade and capacity building in the developing world". This is also one line of argumentation of companies such as Nestlé.²⁰

world will unavoidably slide back to the hell of protectionism. This kind of doomsday scenario circulates at regular intervals.

¹⁸ John Stuart Mill, *Essays on Some Unsettled Questions of Political Economy* (2nd ed., 1874; New York: Augustus M. Kelley, 1968), p. 38.

¹⁹ Philippe Legrain, *Open World: The Truth about Globalisation*; London 2002.

²⁰ P. Brabeck, 'Urgent needs for broad reforms', in: *The Guardian*, 8 September 2003.

Efficient local businesses in developing countries actually matter for long-term investors. Wherever we invest, investors like Nestlé look for local suppliers (e.g., to provide packaging and raw material). Other long-term aspects for a firm like Nestlé include security of supply in an efficient, undistorted international market, and, in the case of food, from sustainable agriculture. Much more food will have to be produced in the future to feed a still growing world population. Only as long as governments open the markets for new competitors locally and internationally will companies and competitive farmers start investing in the build-up of new capacities. One of the most efficient milk producers worldwide, for instance, is Pakistan, producing far below its capacity, partly because international markets are closed and/or heavily distorted. Another main concern here is water: there are huge, unused areas of land for rainfed production, in East Africa for example, that should be developed to replace areas producing with heavily subsidised irrigation water.

Consumer gains are another reason for advocacy of market opening by long-term investors. Firms well placed with their products may benefit from increases in consumption resulting from a higher purchasing power of consumers – including low-income consumers – through higher sales. And liberalising imports means a higher real income for employees without a cost for the employer.

Conclusion

Following on from this analysis three central conclusions can be drawn.

Firstly, consumers have been and will continue to be the main winners from liberalisation. This basic concept – not yet widespread among trade negotiators – should become central to the free trade argument.

Secondly, it remains unclear whether business collectively wins from globalisation and the liberalisation of markets. As we have seen, the answer is relatively complex and by no means a clear-cut yes because while some sectors may win (directly and indirectly, i.e., also through consumer gains), others lose and will therefore oppose

liberalisation. In addition, even within sectors there will be both losers and winners since the major impact from liberalisation, as outlined, is more competition in a wider market.

Finally, strong, balanced and successful business advocacy for trade policy and import liberalisation is necessary to ensure advantageous outcomes to trade negotiations. The lack of an adequate business presence represents a danger to the proper functioning of the multilateral trading system. With the increasing complexity of negotiations, business, and ultimately also negotiators, should have an increasingly long-term and strategic perspective. Balanced advocacy means (if possible collective) participation of industry from all countries (i.e., developed and developing), all sectors and companies of all sizes. Successful advocacy requires a common effort and an agreed upon language from the worldwide business community. At present we are far from this communality as there are still contradictory messages coming from business. Before business leaders can expect to be able to convince others, they may still need to convince themselves.

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