

TOLERANCE
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likely to keep out foreign contact than to welcome it.

As you meet in Britain, permit me to say where the British Government stands.

Global Britain

This Government is firmly committed to embracing the changing nature of the international reality as a condition of domestic success. We do not want to cling to a Little England. We want to build a Global Britain. A country which accepts globalisation as an opportunity to be seized, not a threat to be resisted. A country which is confident in its approach to international partnership. A country which is comfortable that it can face the challenges of globalisation. A country which is at ease with itself and with its neighbours in Europe. Global Britain can be confident in its approach to globalisation because it speaks the language of globalisation. English has become the language of the Internet, of software, of the communications revolution. English has been our country's single most successful export.

Global Britain can be comfortable in facing the challenges of globalisation because our ethnic diversity is a strength in the modern world. A multi-ethnic society is better equipped to handle a multi-polar world.

Global Britain understands that the stronger we are in our own continent of Europe, the stronger we will be in the other six continents of the world. Any sane foreign policy must start by accepting the facts of geography. We cannot manage a foreign policy that goes all the way round the board of the globe without passing Europe. Any responsible trade policy must start by accepting the laws of arithmetic. It is with the other countries of Europe that we trade the clear majority of our exports.

The prosperity and the security of our nation depend on foreign contacts. Tolerance towards the foreign resident who has made his or her home in our country is the parallel to partnership with a foreign country abroad.

In the global village legitimate migration is the necessary unavoidable result of economic

success which generates a demand for labour faster than can be met by the birthrate of a modern developed country. We must ensure legal migrants have the full opportunity to contribute their skills and talents to the country they have chosen as their home. By contrast, discrimination at home is sister to xenophobia abroad. In the age of globalisation, both damage the national interest. Neither should have any place in the political lexicon.

I have said that we want a Global Britain that is confident and comfortable and at ease with the challenges of globalisation. I was very struck reading through the papers for your discussion that not all contributors showed that sense of confidence, comfort and ease about globalisation. On the contrary, there were frequent strains of angst at being misunderstood and a touching sense of hurt at not being regarded with more affection. Let me therefore as a politician address some of the questions raised by the gulf between globalisation and its populist critics.

Building a Wider Consensus

The age of globalisation is marked by remarkable economic vibrancy and rapid technology transfer. In economic history, it is matched only by the experience of the post-war decades, from the Marshall Plan to the Seventies oil shock—what the French call “les trente glorieuses.” During that period, the British economy doubled in size, the U.S. economy tripled. Germany and Japan both grew ten-fold. However, the striking contrast between these two phases of similar growth is the difference in public reaction. The period of post-war growth was overwhelmingly welcomed and by and large was not in itself a matter of political controversy. By contrast, the term “globalisation” has entered the language as an unloved, faintly menacing word—as unattractive as it is polysyllabic. Why this contrast in popular reaction to two periods of similar growth?

The post-war settlement was built not just around economic growth. It reflected a much

wider political consensus which was broadly shared across Western Europe. Business was guaranteed a stable environment for sustained growth. But the wider consensus was based on an implicit social contract with the people. Their consent was based on other features of the post-war consensus. A universal standard of welfare. Equal opportunity of education and in employment regardless of birth. An open society and democratic government. These were the broad planks on which popular support was built for the prolonged post-war period dynamism of business in the Atlantic area. Globalisation does not enjoy any such broad consensus. It is vulnerable precisely because it is often perceived by its critics as the globalisation only of investment and of trade. If we are to defeat those critics, we can do so only by building a wider consensus that globalisation must be much more than just a global economy.

We will not construct such a consensus simply through better presentation or wider process. I have no doubt that both could be improved. For instance, global organisations need to master the same structured dialogue that national governments hold with NGOs. Non-Governmental Organisations are no substitute for elected democracy, but they can complement it and are part of the strength of any mature civic society. There are for instance in Britain five times as many members of environmental NGOs as there are members of political parties. Prudent politicians treat them with respect.

If we are to divert sympathy of NGOs from those who take to the street, then we must enable them to be part of the international community in the same way as they are part of national society. And with a similar basis for dialogue. Official forums through which they can formulate and express their concerns. More open access to working papers. The exchange of secondments between staff of the official organisation and staff of the larger NGOs. The inclusion of representatives of NGOs within national delegations. All of

these are methods which we have adopted domestically in Britain. It does not spare us from criticism. The whole point of a Non-Governmental Organisation is to put forward non-governmental views. By and large, though, inclusion does engage those who take part in a legitimate dialogue rather than illegitimate disruption.

But changes in presentation and process cannot by themselves create a consensus. That also requires changes of substance. So now I want to focus on two issues of substance, two essential building blocks of a consensus on globalisation—Global Fairness and Global Responsibility.

Global Fairness

First, Global Fairness has made a strong net contribution to development. In the past decade, the level of foreign direct investment in developing nations has increased six-fold. It now runs at three times official development aid. Over the past generation, countries in Asia have achieved such dramatic growth in trade that their incomes have moved from something akin to African levels to something similar to countries in Europe. These are formidable pluses on the balance sheet. But the benefits of globalisation have been unevenly spread. The overwhelming bulk of investment goes to just a few developing countries. Africa has been passed by. Despite the exciting trends and dramatic growth elsewhere, per capita income in Africa is less today than a generation ago. It is not just an irony but a tragedy that the poorest continent on the globe is the one which has actually got poorer during the age of globalisation.

The revolution in communications creates limitless opportunities for the transfer of knowledge, technology and design. A prime driver of economic growth will be the accelerating speed of technology transfer in a wired-up globe. But large parts of the face of the globe are simply not wired up. Here in Britain, 95 per cent of households have a fixed telephone line, and 65 per cent of the total

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population now have mobile phones. But half of humanity has not made or received a telephone call in their life. Like me, many of you might feel one day without a telephone call would be enriching, but a lifetime without it is impoverishing. The old divide based on differential access to investment or to skills is in danger of being replaced by a modern divide over different access to the new technologies of communication.

Globalisation is not to blame for this unfairness, but nor will globalisation alone remove the unfairness unless we consciously adopt Global Fairness as a deliberate objective. There is much that can be done.

It is one of the harshest paradoxes of globalisation that in the very decade when the world has been integrating a global economy, the global level of development aid has been declining. Moreover, the global distribution of official aid sometimes appears to enhance rather than diminish unfairness. For instance, if we were to produce an index of poverty, it would be unlikely to produce a spread of development aid which allocated to sub-Saharan Africa only one-twentieth of the help per head available to the Middle East and North Africa.

As Foreign Secretary, I pay tribute to my colleague Clare Short, our Development Secretary. Under her guidance, Britain is increasing our aid budget by almost 50 per cent in six years. And refocusing it on the poorest people in the poorest countries.

Development aid in these circumstances is not in competition with private investment. It reaches those communities which currently receive no investment and which will attract private investors only through sustained development of human resources. And it needs to be accompanied by an approach characterized by a generous realism which recognises that poorer countries cannot develop their human resources if their debt burden exceeds their education and health budgets.

Yet, I was struck that none of your contributors saw an increase in official aid or a reduc-

tion in debt as part of the answer to the critics of globalisation. I believe it is in the interests of global private enterprise to press governments to reverse the general decline in development assistance and thereby address the perception that globalisation is unfair.

There is a parallel here with the point I made about the post-war consensus. Welfare for the destitute, public health to protect the community as a whole, and free access to education for all were essential elements in that consensus. It is precisely that development of human resources which is now needed in the poorest countries to enable them to take advantage of the opportunities of globalisation. Businesses engaged in the spread of globalisation should openly demand such investment by their governments. The other means of promoting Global Fairness is trade. Even a modest shift in the terms of trade can produce gains to a national economy that widely exceed any possible increase in development aid.

The fastest-growing developing countries have been those which have done most to take the opportunity of globalisation to boost trade. As a result, global inequality fell in the 1990s after three decades in which it soared. But global inequality remains much higher than a generation ago and the benefits of greater trade are uneven. The total exports of India, Pakistan and Bangladesh together are broadly similar to the exports of Thailand's 60 million people.

The collapse of the Seattle talks arose in large part from the feeling among the developing countries that their priorities were not high on the agenda and that their voice was not influential in the Council chamber. Yet, it would be a tragedy for those same developing countries if we were not to take forward a further World Trade Round. Halving trade tariffs worldwide would boost developing countries' income by three times the total of development aid flows. We must persist with a further World Trade Round. But we must ensure that it gives strong priority to promoting develop-

ment. Free trade for the industrialised products of the developed world must be matched by fairer access for the agricultural products, textiles and clothing of the developing world.

This poses a particular challenge for Europe. The Common Agricultural Policy is the largest system of agricultural protectionism on the globe. But it does not protect the living standards of the farmers themselves, as we have seen here in Britain. Nor is it in the interests of our nations as a whole. Our consumers pay prices well above the world market, and in the case of commodities from the poorest countries, such as sugar, they pay three times the world market price. Europe cannot simultaneously be in the vanguard of liberalising industrial trade and in the rear-guard of liberalising agricultural trade.

There is one simple but profound step which the WTO could take to demonstrate its commitment to Global Fairness. It should commit itself to achieving agreed International Development Targets, such as the reduction by half by the year 2015 of those living below the poverty level. It has the capacity to make a massive contribution to meeting those targets. It could thereby demonstrate to the developing member states that their concerns are shared by the organisation as a whole. And it could disarm those critics that see it as an instrument of injustice rather than an advocate of Global Fairness.

Global Responsibility

The other foundation for a new consensus must be Global Responsibility. The connections between our actions and their results were much easier to understand in an age when most of the products we bought were produced domestically, possibly even locally. But now consumers buy their food, their clothing and their compact discs from countries which they have never visited. They have no idea, and no means of knowing, what may have been the non-financial costs of their purchase. When they buy furniture, they have little idea of the environmental footprint on the

local forest. When they buy an engagement ring, they cannot tell whether it was bought with blood in an African conflict.

Nor can their government address these concerns by unilateral regulation. Developing countries are rightly suspicious of national environmental restrictions on trade as a covert form of protectionism. And, in any case, these are international problems which can be solved only by international solutions. Governments cannot hope at an international level to discharge the public responsibility which they are expected to exercise at a national level.

Nor is it unreasonable in the modern world to expect a wider degree of private responsibility. One of the consequences of globalisation has been the rise of transnational corporations with assets greater than those of governments. Wal-Mart has a turnover broadly similar to the GDP of Norway and General Motors has a turnover greater than the GDP of sub-Saharan Africa. Many of the larger corporations represented in this room have more executives working in foreign capitals than I have diplomats working for the Foreign Office.

In these circumstances, it is reasonable to ask for corporate good citizenship. Business has as much a duty as government to ensure that its activities protect the environment. And there are many striking examples of corporate business accepting that duty. Global Responsibility means that it should become the norm within globalised business to observe the sound principles of environmental management. The sustainable harvesting of timber and fisheries. The reduction of waste emissions and energy consumption. The application in developing countries of the same safety standards that they would apply at home. The publication of an environmental audit as a routine part of the annual reporting cycle.

All of this is in our own interests as well as those of the local population. The most compelling demonstration of globalised cause and effect is the discovery of the intimate way in which disturbing the environment in one

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hemisphere can produce profound and irreversible changes in the climate in the other hemisphere. Those businesses most active in the globalising economy must show the greatest global responsibility in stabilising the global climate.

There are other examples where business and government can work as partners to demonstrate Global Responsibility. For instance, diamonds from regions of conflict.

The majority of deaths in conflict over the past decade have taken place in Africa. And the struggle for control over the diamond fields is at the heart of many of those conflicts—in Angola, in the Democratic Republic of the Congo, and in Sierra Leone. In all of them, control of diamonds is a principal incentive and the sale of diamonds is the principal means of paying for weapons.

Mainly because of our leading role in Sierra Leone, Britain has been pushing for a global ban on rough diamonds from conflict areas. I have to say that we are very encouraged by the positive response from the diamond trade and I would particularly mention the strong leadership provided by De Beers. As a result, we are now on the verge of a world certification regime, which will ensure that rough diamonds cannot be traded from countries in conflict unless they are validated by the legitimate government. This will reduce both the capacity and the will of rebels to prolong a conflict. But this will also provide an illustration of the positive potential of globalisation and the way global networks can be turned to advantage if business and government together accept their Global Responsibility.

Conclusion

Globalisation is with us. It is not just here to stay. It is here to accelerate. Our prosperity and our security will become increasingly interdependent. I have tried to sketch out some of the elements of a political consensus to match that new economic reality. Greater transparency of international organisations. A determination to ensure that the benefits of

globalisation are more fairly shared. A commitment that global trade does not knowingly destroy the local environment or unwittingly promote local conflict.

Of course, it will be a major undertaking to turn round the perception of those who see globalisation only as a threat and never as an opportunity. But I said at the start that London might prove a stimulating environment for your discussions. Perhaps I could end by adding that the example of London provides not only a stimulus but a hope. London was after all first established as the capital of England by Romans from Italy. Who were in turn driven out by Saxons and Angles from Germany. The great cathedrals of this land were built mostly by Norman bishops, but the religion practised in them was secured by a Dutch prince. Contact with the outside world did not begin with globalisation.

London City and the British nation have both been shaped by successive waves of migration and foreign influence. And there is a consensus among my countrymen of natural pride in the culture and economy that has resulted from their past contact with the outside world. I offer that happy ending as an encouragement to your discussions and a sign of hope that with effort it should not be impossible to build a similar consensus on the accelerating foreign contacts required by globalisation.

Robin Cook was the United Kingdom's Secretary of State for Foreign and Commonwealth Affairs in the first Blair Government (1997–2001), including during the March 2001 Trilateral meeting. In the Cabinet shuffle after the June 2001 elections he became the Government's leader in the House of Commons.

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aware of what is going on and feel a right to be involved in decisions that affect them. They are asserting that right, sometimes on the streets. There is mounting discontent as decisions that have important effects at the local level are taken by international bodies that are not perceived to be part of a governance process for which there are clear accountability mechanisms.

In an increasingly interdependent world, it is obvious—I think to most everybody, but maybe I am mistaken—that one needs better and universally applicable rules of the road. We need means of ensuring we don't collide, and at a higher level, that will enable us to arrive at our chosen destinations. The rules have to be both effective and accepted as fair. How to bring this off is not obvious and does lead to questions about who should make the rules, how they should be made, how flexible should they be, and who, if anybody, is to enforce the rules. You will recognize these as classic questions about politics and governance. Yet we have no clear system and process of global politics and global governance. We have parts of a system, but nothing that is remotely complete. The building has many architects and many workers, and can at best be described as a work in progress.

It is clear we will not have comprehensive global government for a long time, if ever. That does not mean that building governance in a more conscious way for the major global challenges that require policy and management is not urgent. It is. Governance has to reflect the state of global politics, even if it is now a messy one. It also has to reflect a system of accountability that has more acceptance than the present one. And that has implications for transparency and participation.

I have no doubt that global institutions feel quite accountable to those they understand to be their stakeholders. The latter are governments, or more accurately, parts of governments—individual ministries. I would argue that the series of separate links back from international bodies to national governments

is part of the problem. The decisions of these institutions can have truly dramatic effects across economies, societies, and cultures. Think about the Asian crisis and that dramatic picture of Michel Camdessus standing with arms crossed waiting for Indonesia to accept the terms established by the IMF. Despite recent efforts to improve transparency, participation, and accountability, these institutions fall far short of what one would expect from a democratically elected government. This is not because of the insensitivity of management and boards. It is in no small part because the stakeholders—member governments—would not have it any other way.

The end result is not satisfactory. There is a need for greater inclusion, a sharing in the benefits of globalization, and better means of managing what economists call global public goods—and “bads”—which cut across a number of institutions. Otherwise the backlash against globalization will mount and we will find ourselves with more and more important environmental and security problems. This would not be a pleasant world in which to live. The good news is that we don't have to live there.

**States Must Still Lead,
but in an Inclusive Way**

Let me now turn to the changing roles of states, the traditional locus of authority and accountability for governance. The reality of major global challenges that can only be met through intensive international cooperation is a major change affecting the efficacy of individual states. We live in a world in which, despite some rather impressive concentrations, I would argue power is increasingly diffused. Sovereignty has been ceded upwards to international institutions. Non-state actors (civil society and the private sector, nationally and globally) have simply asserted their increasing power. And sub-national levels of government are increasingly constitutionally required to be part of the process. There are clear contenders to the state's formerly unchallenged exclusive authority.

But it does not follow the state is going away—far from it. What is needed is for the state to learn how to share power. This requires more than better information and even consultation. Let me recall two examples that I have experienced. First are the negotiations on a multilateral agreement on investment (MAI). Experts in the field who met at the OECD conducted them. A variety of differences emerged that required difficult and absorbing negotiations, but meanwhile those involved lost sight of the developing opposition to the MAI in civil society that eventually did in the negotiations. That opposition was an alliance of convenience of groups that in other circumstances would have had difficulty agreeing the time of day.

My other example is the treaty to ban anti-personnel landmines, so often heralded as a success by my former boss, Lloyd Axworthy, who was Foreign Minister of Canada. Let me say very clearly that if we had concentrated our efforts on lobbying other foreign ministries around the world, we would not have come very far. Instead we built on and helped develop a coalition of NGOs. We worked with the late Princess Diana—a transnational personality if ever there was one.

What this means is that governments need to act in different ways. While they can and must lead, they need to do so in an inclusive way. They need to become more and more comfortable working with civil society—not necessarily all of it, but key parts. Subordinate orders of government (in a constitutional sense) need to be brought into the tent. Nonetheless, the state retains its unique authority. It is uniquely accountable to its electors. NGOs may be increasingly powerful, but have in many cases questionable representativeness and accountability. The state is an indispensable part of governance at the global level. Global environmental change, transnational health and crime problems cannot be solved without the state. This is quite apart from the fact that many, indeed most, policy issues and program services are best

handled at the national level.

We are living in a world in which there is simultaneously integration and fragmentation. Traditional lines between “domestic” and “foreign” have broken down. Old national loyalties are being undermined. There is increasing distrust of governments and other institutions. National borders are more porous. It is harder and harder to frame policies strictly at the national level. Events move more rapidly. These are challenging times for policymakers.

The Role of the United States

Before closing I would like to say a word about the United States, obviously the country that has by far the most power in the world today. The leadership of the United States in building a rules-based system with strong institutions to manage those areas in which we are interdependent is crystal clear. That won't happen if the United States succumbs to the inclination to act unilaterally. I am not worried about isolationism. I worry instead about the concept of U.S. exceptionalism, as well as attachment to sovereignty, which I know is deeply rooted in American political culture. I am absolutely convinced that the idea of a world in which there is one set of “rules” that the United States establishes for itself and another for the rest of the world won't fly. Think about the example of the International Criminal Court. There would not be an ICC without the leadership of a number of Americans. If the United States wishes to be able to bring to justice war criminals, can there be a system for Serbs and Rwandese, not to mention Canadians and Germans, that cannot by definition apply to Americans? Excuse me, but I think not.

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My conclusion, therefore, is that while globalization, global change, global interdependence—whatever you want to call it—is going forward and leading to the development of innovative forms of governance that increasingly often include civil society, the state is not

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going away. Other actors have joined it on the world stage. The state needs to learn some new roles, to operate in different ways. And there are more and more opportunities for those of us at present not in governments to have influence. There are some interesting political implications from this. The capacity of elected governments to deal with an increasingly important set of problems is circumscribed. This reflects on how governments are seen and what they must say to their electors. As externally agreed decisions and rules have growing impact, including on social cohesion, who is to be accountable and how will that accountability be exercised? There will be a large political cost to fudging the answers.

Global politics on the great issues of poverty, sustainable development, climate change, and the like are now only working in a rudimentary way. There is no assembly or parliament; nor is there likely to be one for a while. Yet something has to be done at the global level to permit non-governmental voices to be heard in a more systematic way. It seems to me that there is something the Trilateral Commission, as a good NGO, can do to facilitate this process.

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ERNESTO ZEDILLO

Globalization and the Changing Roles of States

It is commonly believed that globalization is forcing nation-states to adapt. This view considers that modern globalization is mainly a result of technological progress in production methods, transport, and telecommunications. It attributes to nation-states a somewhat reactive, even passive, role in the process. At the very best, proponents of this standpoint look at the nation-state as just one among several important factors in the globalization process. An extreme version of this view would submit that globalization frequently proceeds in spite of nation-states. I dispute the validity of this view because it does not correspond with practical experience and it can also lead to mistaken policy decisions. I believe that modern globalization has occurred not in spite of the nation-state, but really, to a significant extent, because of decisions and actions taken by nation-states.

Global integration, economic and otherwise, has indeed been driven by technological progress and economic incentives, but it would be inconceivable in its present form without the universe of political decisions taken by states at both the national and international levels in many fundamental respects. The rapid expansion of international trade and investment in recent decades has certainly been facilitated by technological progress, but it would hardly have occurred in the absence of very deliberate policies implemented by member-states of the international community. At the national level, sovereign state decisions to foster the market economy by opening to foreign trade and investment and liberalizing financial markets are, more than anything else, key to explaining present economic integra-

tion. At the international level, it has been chiefly by virtue of political decisions made by sovereign states that many agreements leading to unprecedented integration have been made.

For example, regional agreements such as the European Union, Mercosur, and NAFTA were not the result of technological progress. They have been above all the result of political visions and decisions by sovereign states. The processes which have produced, for example, the remarkable, albeit yet incomplete, rules-based WTO system are of an equally political nature. Believe me that no technological factor would help to significantly explain the way in which the Mexican economy has integrated into the world economy in just a few years. Sheer political decision and action explain why today Mexico has free trade with more countries than any other nation in the world. Of course, this circumstance includes NAFTA and the unprecedented FTA with Europe.

Acknowledging the strong political roots of globalization brings with it both good and bad news. The good news is that notwithstanding their current adverse reputation, the human inventions of politics and the nation-state are still doing a lot of good. The bad news is that, contrary to some beliefs, globalization, being to a great extent a creature of political decisions, is not an irreversible process. Its technological determinism is a fallacy. Beware of the possibility that governments and politicians can still resort to new forms of protectionism to roll back existing liberalization and can also make policy mistakes that could lead to a less propitious environment for the expansion of the international economy. They can, in short, adhere too quickly and too blindly to the emerging “political correctness” that fallaciously imputes to globalization all the present evils of the world. Let us not forget that, in modern history, globalization was already reversed once by the actions of states with disastrous consequences for humankind.

If we believe, and I certainly do, that global-

ization is not the cause, but part of the solution to the problems of poverty and inequality which unfortunately prevail in the world, then nation-states have an enormous responsibility not only to confront, with good politics and wise public policies, the present hostility towards globalization, but also to continue playing an active role in its orderly development. Our conference chairman, Peter Sutherland has rightly pointed out that, “While the market economy system is largely agreed in principle, the mechanisms to make it work internationally are at an early stage of development.” This is by no means an exaggeration. The agenda facing nation-states to harness globalization’s full potential contribution to human development is very challenging as well as fascinating. Of course, I do not intend to burden you with an exhaustive discussion of such an agenda. Fortunately, it is being covered to some extent in the various sessions of this meeting. Just allow me to hint at a few points that I consider to be of some relevance.

First, I would insist on the fundamental and irreplaceable role of nation-states in the construction of global governance. In this task, as in many others, it is absurd to try to bypass the nation-state with agents of nil democratic representation and of dubious transparency and accountability. Indeed, let us be attentive to all voices, but without allowing the state to be overruled by other actors, however altruistic they may claim to be.

Second, nation-states should continue to strive for a rules-based international system. This is in the best interests of the weaker members of the international community. Far from diminishing modern national sovereignties, a rules-based system enhances the power of weaker states to safeguard their legitimate interests. I liked what Secretary Robin Cook said to us yesterday, “We are now as interdependent as we are independent.” In reference to the developing countries’ cases I could change somewhat Mr. Cook’s idea to make it even more appealing: We are now independent to the extent that we are interdependent.

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Third, the WTO experiment—indeed the first post-Cold War era rules-based institution—should not only be fully completed in a new comprehensive round of negotiations, but the basics of this model (binding regulations and dispute settlement provisions) should be extended to other essential areas. Rather sooner than later, the international community—represented by nation-states and assisted by existing multilateral institutions—should begin to decide on new or reinforced global institutions in fields such as the environment, investment, world taxation, banking standards, and accounting standards. Likewise, the fundamental issue of global public goods should be tackled.

Fourth, and most important, nation-states should more effectively confront the acute problem of social exclusion at both the domestic and the international levels. They should start by dispelling the mistaken idea that globalization per se is a main cause of existing disparities. Globalization offers unique opportunities that hardly any other economic arrangement could provide. The question is why some are able to take advantage of those opportunities, while others cannot—or are left behind. The bottom line (or I should better say, the dividing line) has to do with freedom. People are left behind because they are not free. And they are not free because they lack nutrition, education, training, health, basic human and political rights, security, elementary infrastructure, and employment. By means of well-designed and focused social policies which expand basic human freedoms, the most vulnerable members of societies can be empowered to share the opportunities provided by the market economy and globalization at-large. Of course, this is more easily said than done. It requires sound domestic policies pursued by strong and democratic national institutions, but in many cases it also requires vigorous international cooperation that, unfortunately, is today practically absent from the agendas of the well-off countries of our world.

I hope that, beyond any altruistic sentiment, self-interest will advise a change in the present status quo about aid and international cooperation. Otherwise, confusion and animosity about globalization will prevail. And much sooner than later, everyone will have to pay for that.

Ernesto Zedillo is former President of Mexico (1994–2000).

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from the opening up of the economy are felt in every aspect of life. In the socioeconomic field, the changes have created a dualistic society. There is a divide between the 20 percent of the people who have benefited from globalization—basically the middle class—and the 80 percent who have been left behind. This 80 percent benefits somewhat from the trickling down effect, but Indonesia is experiencing a widening income gap. This poses a real political problem.

In the sociopolitical field, globalization has created a middle class that is more assertive and independent from the government. They demand a more flexible political system, which in most cases can be offered only by a real democratic system. In the sociocultural field, values are changing very fast, resulting in the alienation of some of the populace who then try to protect themselves behind traditional values based on religion, race, and ethnicity. These changes have created greater divides in society at-large and have caused more political problems.

In retrospect, Indonesia's troubles are obviously related closely to domestic political developments. The crisis in 1997 was preceded by a very authoritarian political system. Rules and institutions, and the flexible political system necessary to cope with globalization, did not exist. Socioeconomic and sociopolitical changes are required before Indonesia can benefit more fully from globalization. Transparency, accountability, good governance, the rule of law, flexible political institutions, and adequate financial institutions (including the right sequencing of the process of opening up the financial system) are prerequisites that must exist in conjunction with the globalization process. Inequality is a special concern that can be overcome by special policies and measures, especially in the education and training fields. These policies and measures are critical for workers that lack skills, and small and medium-sized enterprises that lack technology. So, as in the case of the first group of countries, domestic

policies and institutions are critical for reaping the benefits of globalization.

The international community can and should help those developing countries disrupted by globalization willing to continue to be part of the globalized world to become healthy again. If most of them cannot overcome the setbacks they are now enduring, then support for globalization will be set back and fewer countries in the developing world will stay partners of the West.

What do these countries expect from the international community, particularly the West?

- First, *global fairness*. The developing world expects a level-playing field in trade, especially access to Western markets for textiles, footwear, and agricultural products.
- Second, *global ethics*. It is hoped that good governance is valid not only for governments, but also for the private sector, which has caused so much damage to the environment and in the treatment of their labor. Cooperation between the public and private sectors in these areas can lead to the establishment of rules of good governance and to overcoming the problem of training and education, and the problem of health-care for the people.
- Third is *review and renewal of global rules and institutions*. Since the Bretton Woods institutions were established in 1944, dramatic changes have taken place and many more countries now take part in these regimes. One very obvious problem is in the area of international finance. Short-term movements of funds have caused havoc in the developing world. Another issue relates to the role of the IMF and the need for greater transparency and accountability. The developing world feels that, in the development of global rules and institutions, the West has been too dominant. Therefore, it is only fair to demand some changes. Corrections are also needed in the field of trade. New conditionalities—environmental and labor

standards—to be included in the next round of WTO negotiations are strongly rejected because they may be a disguise for protectionism. Environmental and labor issues are important, but they have to be handled separately and by the appropriate institutions, such as the ILO in regard to labor standards.

Globalization Potentially Beneficial, but Requires Corrections

As was evident at the recent Porto Alegre World Social Forum in Brazil, there are different perspectives on the impact of globalization and economic liberalization. The “globalizers” tend to look at the impact of globalization at the aggregate national level and in a macroeconomic sense, while the “globalizees” tend to see concrete cases of poverty, starvation, or complete deprivation of basic human needs. A second difference in perspective is the timeframe. While the “globalizers” usually refer to the medium to long term (five to ten years or more) for overcoming the inequality gap, for the “globalizees” the problem is one of the coming days or months, because the impact could be a calamity for a family, a village, or a region. But some agreements were reached in the dialogue at Porto Alegre; and, except for some NGOs that hold extreme views, the process of globalization has been accepted as potentially beneficial, albeit requiring a lot of corrections.

NGOs should not be considered enemies. There are various kinds of NGOs and many perform very useful roles in correcting and criticizing governments. But to expect that they will replace governments is also wrong. They do not pretend to replace governments, so to expect them to fulfill the conditions expected of governments, such as democratic representation, transparency, and accountability might be the wrong approach. If NGOs are not credible, public opinion will gradually deflate their importance and discount their views. There are good and bad NGOs, just as there are good and bad governments, but to

deny their role because there are bad NGOs is not going to be effective in dealing with them. In some developing countries, their role is crucial to continuing democratic change and, for that reason alone, their existence and role has to be respected.

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NORA LUSTIG

Sharing the Benefits of Globalization More Widely

I am going to address three questions. Is there evidence that there are people and countries in danger of being left behind? Is globalization helping or hurting those in danger of being left behind? What actions are needed so the benefits of globalization are more widely shared?

Those in Danger of Being Left Behind

On the first question, I want to share with you some figures. In 1960, per capita GDP in the richest twenty countries was eighteen times that of the poorest twenty countries. By 1995, this gap had widened to almost forty times. There is evidence that wage disparities between skilled and unskilled workers have been on the rise in many parts of the developing world (particularly the middle-income Latin American countries) and also the developed world. Gains in life expectancy since the mid-twentieth century will soon be wiped out in countries at the center of the HIV-AIDS epidemics in Africa. In the transition economies

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of Europe and Central Asia, the number of people living on less than a dollar a day rose from about one million in 1987 to twenty-four million in 1998—more than twenty-fold. Ethnic and racial minorities face higher poverty rates in many societies and this may not be improving. In Peru, for example, indigenous groups were 40 percent more likely to be poor than non-indigenous groups in 1994, and 50 percent more likely in 1997.

While donor countries' economies grew in the 1990s, at the same time their development assistance shrank from one-third to one-fourth of one percent of their combined national product. It has been estimated that industrialized countries' trade barriers cause annual losses in developing countries' potential welfare of more than twice the yearly amount of development assistance. Only 10 percent of the \$50–60 billion in health research worldwide each year is spent on the diseases that afflict 90 percent of the world's people. Over thirty-two million HIV-positive individuals in the developing world do not have access to treatment because AIDS drugs cost \$10,000–\$15,000 a year—between five and fifty times more than annual average incomes in some of these countries. There is also evidence that, in many developing countries, public spending is not progressive and is not protected from adverse shocks.

Globalization Is Producing Winners and Losers

What's the link of all this to globalization? I include in the concept of globalization the process of market reforms, particularly the process of liberalizing trade and capital accounts and deregulating the economy. The evidence shows that market reforms in general have resulted in positive outcomes in countries that have introduced them. Studies on Latin America indicate that the counterfactual of no reforms would have cost, on average, two percentage points of growth in the early 1990s. The countries of the former Soviet Union that reformed faster did better. China is a very good example of

a country that reaped large growth dividends from the introduction of market mechanisms.

More growth, as we know, means less poverty. At the same time, however, I think we have to recognize that growth in developing countries has been disappointing, partly as the result of external shocks, but partly because some reform processes have failed to deliver what was expected or failed entirely. In some cases, financial and capital account liberalization has been one of the main causes of significant banking crises worldwide. Another problem has been the capture of the reform process by rent-seeking elites.

Country-focused studies have found that liberalization can generate benefits for the poorer sectors of society, particularly when it involves agriculture. In some cases, like Ghana, Chile, China, and Uganda, there have been gains for everybody, including the poor. However, other studies show that the process of liberalization has created losers, particularly during the transition when subsidies are eliminated and trade barriers are dropped. Some of these losers may be the already-poor or people who become poor as a result of reforms.

Level the Playing Field and Address Systemic Risks

What actions can be undertaken so the benefits of globalization are more widely shared? Economic growth continues to be one of the main factors in reducing poverty worldwide. There is no doubt about it. But we have to be aware that reducing poverty through growth may be quite slow. For example, in Brazil—where half of Latin America's poor live—for those people who live at below half the poverty line, their income would have to increase 300 percent in order to reach the poverty line, so it would take several decades for them to become non-poor. This is the case even if the country's GDP per capita grows steadily at 3 percent, a growth rate higher than Brazil's past performance.

In order to accelerate the spread of benefits that growth may bring, specific actions are

needed both nationally and internationally. Actions are needed to level the playing field, particularly by increasing the asset-base of poor people in the areas of education, health, and land; by making markets work better for poor people; and by reducing social barriers that keep certain ethnic and racial groups or women in a state of disadvantage in society. The other important sets of actions that have to be undertaken have to do with risk management. It has to be recognized that reforms can produce losers and new sources of risk during the transition. Mechanisms reducing the likelihood and risks of shocks, and helping poor countries and poor people cope with shocks when they occur have to be integral parts of the process of globalization if the benefits are to be shared.

Beyond the domestic arena, there is also a number of international actions that can help level the playing field and address systemic risk. One is the importance of reducing protectionism in developed countries. A second is promoting financial stability. There is now a debate over how that stability has to be promoted. In particular, how important are ex-post rescue packages? In a world where contagion and herd behavior prevails, timely rescue packages—supported by appropriate domestic policies—will continue to be crucial. Another is promoting global public goods, such as research in agriculture and communicable diseases that affect the developing world, and providing access to the results of this research to the poorer parts of the world. Other actions include focusing aid on poverty reduction; stemming armed conflict; and encouraging the constructive participation of the poorer countries and poorer people in the world fora that decide how the process of globalization takes place.

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JAY MAZUR

Globalization Must Work for Everyone

I very much appreciate the opportunity to participate in this discussion, for I believe it reflects a positive shift in the focus of debate on the direction of the world economy. For too long the great debate on globalization—particularly trade—has been reduced to sterile caricatures that are increasingly meaningless: Labor is protectionist; big business free-traders. This is not true. In fact, I find that a strange reversal has taken place in this debate. The continued resistance to the inclusion of worker and environmental rights in trade agreements might very well be called the “New Protectionism.” What do I mean by that? I mean protection of the privilege and power to exploit workers and the environment without regard to the human consequences; protection against the sometimes inconvenient demands of industrial and political democracy; protection to buy and sell without any restrictions, including responsibility for the social implications of this commerce.

Let me be absolutely clear about this. The labor movement and its allies do not believe that higher trade barriers are the solution to poverty and oppression. Increased trade can and has created new wealth and raised living standards for many people around the world. We do not believe that the industrialized countries can turn our backs on the struggle of developing nations to raise the living standards of their most destitute citizens. We do not believe that globalization is the new Evil Empire.

So when we speak of those in danger of being left behind, we are talking about those who have not shared in the benefits of globalization. But we are not talking about a few stragglers in an otherwise orderly march of

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humanity toward a bright future. We are talking about multitudes who do not believe the system is working for them. They have been left behind, and they know it: workers who have seen their real incomes stagnate or decline over the past decade, which is what most workers have experienced in both developed and developing nations; the nearly two billion people who live on less than a dollar a day; the hundreds of millions who are illiterate and malnourished; the 2.6 billion people who lack even basic sanitation.

We understand that these problems cannot be solved overnight, that there has been some progress. But there is one indisputable fact about globalization that I believe holds the key to this discussion: Globalization has created spectacular concentrations of wealth. Some of this wealth has inevitably trickled down, but this process should not be confused with social development or even economic growth. Whatever else we may say about globalization, the rich are getting richer and the poor are getting poorer. Even some of the most ardent proponents of globalization have come to acknowledge what I suggest to you is this potentially fatal failure of the current system.

Globalization increases income and social disparities within and among nations. Globalization has left many people behind. It is wrong to protect only those who invest for a living and not those who work for a living. If globalization is to work, it must work for everyone. When the assets of the two hundred richest people in the world are greater than the combined income of the two billion people at the other end of the economic ladder, there is something wrong. The sheer size, and with it the power, of multinational corporations is overwhelming national states. Of the one hundred largest economies in the world, fifty-one are corporations—the other forty-nine are countries. I would venture to say that never before have so few benefited so much from the labor of so many.

These inequalities impact not only people and nations of the developing world. There are

many millions of working people within the Trilateral countries themselves who believe, and have reason to believe, that they have been left behind. A recent *Business Week* poll found that only 10 percent of Americans supported free trade; 37 percent called themselves “protectionists.” And fully half said they favored the kind of fair trade that the labor movement and its allies have long advocated. It is often suggested that the way to address the discontent arising from this situation is by enhancing the social safety net, providing more effective and comprehensive job retraining, upgrading educational and health care systems, providing adequate unemployment and retirement insurance, and so on and so forth. This, of course, is an excellent idea, but unfortunately one that flies in the face of current political realities. For it is those very same unregulated competitive forces of globalization that have relentlessly pushed corporations and governments to cut back on labor costs and social programs. By all means, let us work at providing better safety nets, as a few companies and governments have, but let us have no illusions about what we must do to get at the heart of the matter. It is one of those moments in history that requires systemic changes, of underlying attitudes and overarching architecture.

We Need a Global New Deal

An essential point of departure is to remind ourselves that labor is not just another commodity, not just another factor of production, however accustomed we might have become to describing it that way. Labor is an expression of unique human value. Its rights are incorporated into the Universal Declaration of Human Rights alongside the other rights we hold to be fundamental and essential to human dignity and political democracy—noble sentiments with which I trust everyone in this room agrees. But in most of the world today the rights of labor are indifferently enforced, blatantly suppressed, or violently denied. This not only offends our sense of decency, but it is also extremely short-sighted

from an economic point of view. More than anything else, what the global economy needs are consumers with money to spend, workers who can buy the goods they produce.

So when we talk about workers' rights, how do we get from agreement in principle to application in practice? It is no longer acceptable to say that today we will have free trade and tomorrow we will figure out how to enforce labor rights and environmental standards. It is no longer acceptable that we vigorously sanction the violation of patents, intellectual property rights, and investor rights, but are unable or unwilling to design appropriate sanctions for the violation of worker rights. Even Charlene Barshefsky, the former U.S. Trade Representative, has called the notion that labor rights should be disconnected from trade "intellectually indefensible." The elements of the system must be linked if the system is to function properly. Universal rights must be enforced universally and simultaneously, not sequentially. When the enforcement of rights is taken seriously, as in the case of property rights, that is the way the system works. We can do no less for the dignity of human labor or the physical health of the planet.

I am reminded of a remark made by the former Secretary General of the World Trade Organization, Renato Ruggiero, who said, "We are no longer writing the rules of interaction among separate national economies. We are writing the constitution of a single global economy." To the extent that this is true—and I believe there is a great deal of truth to this statement—we must remember that a constitution is a political document. A constitution of the global economy must reflect and embody our democratic principles. It must respond to the legitimate needs of the majority while protecting the rights of the minority. It must be clear that our economic system and the markets that drive it are not ends in themselves.

I believe there is a lesson to be learned in the historical experiences of our own nations. We

have learned that the market, by itself, could create havoc as well as wealth, famine as well as feast, oppression as well as opportunity. We learned that some degree of regulation was necessary if markets were to reflect our values and meet our needs as a society. Laws were passed to temper the social distortions shaped by unrestrained capital and markets. Mechanisms were created to enforce these laws. Countervailing institutions were developed to moderate the power of capital in the workplace and the broader political discourse. There was resistance—sometimes a lot of resistance—to these changes. But business leaders who saw beyond the immediate heat of the battle, who looked to the long-term interests of their shareholders, who were willing to think and act anew, played a pivotal role in harnessing the wild energy of our economic system toward the greater good of our peoples.

We need such leadership today, particularly from the Trilateral countries. The global economy of today is like an economic Wild West, with speculative capital flying around the world at well over a trillion dollars a day and goods and services increasingly free to move wherever a dollar can be made. I do not believe that these profound structural problems are going to be fixed by tinkering at the margins. There must be changes in our way of thinking as profound as the problems themselves. I stated at the outset of my remarks that I believe there has been a shift in the focus of the debate on globalization. We are approaching a new consensus that there need to be new rules for the global economy, not only to address the immediate problems of those who have been left behind, but also to stabilize a crisis-prone financial system and to fill the institutional vacuum created by an international economy that has overwhelmed our national political systems.

But what are these rules? Who makes them? And how are they enforced? We need a pragmatic leap of imagination. I don't claim to have all the answers, but I know we need a bold new approach, a new vision, a Global New Deal:

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- The rights of workers, and the protection of the environment, must be given equal consideration with the rights of capital and property and the regulation of trade. Whether this is done primarily through the WTO or by strengthening the ILO, or some combination of the two, is an open question. But there must be a commitment to make this happen and to assure that these rules are built into the global trade and investment system with sanctions to enforce them just as property rights are enforced.
- Debt forgiveness for impoverished nations cannot continue to be a carrot offered only after disastrous cuts in social and educational programs. These countries desperately need relief, and the funds saved can be targeted on basic needs like health care and schooling.
- Something must be done to bring global financial speculation under control. I leave it to the technicians to determine the best way to do this, but serious consideration should be given to the kind of tax proposed by Nobel Laureate James Tobin on the movement of speculative capital. This would not only lower the speculative fever, but also raise significant funds that could be dedicated to improving the prospects of those in danger of being left behind.

Toward a New Internationalism

Let me say one last word about those who have been left behind. They have begun to react, to organize, and to protest, as I am sure you have noticed. They are in the streets and at the factory gates. They are on the net and the web and in the offices of lawmakers and other elected officials. They are workers and students, churches and women's groups, environmentalists and human rights activists. This is a truly grass-roots, international movement, linking North and South, East and West. The din you hear may sound confused and confusing at times, some of the ideas may be foolish and the behavior excessive, but this is a social movement that is growing stronger and more

coherent around a New Internationalism.

It is a movement that is not going away until there are fundamental changes in the system. While the WTO can convene on an island, the protest can't be put out to sea. This is not a public relations problem; it is a performance problem. The global economy just isn't working very well for working people. They and their allies refuse to accept the dictates of the market as the final arbiter of the condition of the human family. They do not believe that undirected growth and open markets alone will lift them out of poverty or give their children the opportunities they did not have themselves. They want the freedom to speak their minds and a fair share of the fruits of their labor.

There is only one way this can happen. The laws and political institutions that were developed to protect people against the “creative destruction” of markets at a national level must now be boldly and imaginatively extended and adapted to the new international realities. Victor Hugo once said that there is nothing more powerful than an idea whose time has come. It is not uncommon for such ideas to originate and gather force outside traditional institutions. I believe this movement toward a New Internationalism reflects and articulates just such an idea, and for the billions of people who have been left behind, it has come not a moment too soon.

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Economic Freedom Is Best Policy

It is very appropriate, indeed, to speak on the subject of globalization right here in this city and in this country. Here in London in 1846 a striving parliamentary majority brought down the infamous Corn Laws, which were such a burden to the poor. Thus began an unprecedented era of free trade that spread all over the world. The first stage of globalization was launched here. The movement under the spirited leadership of Richard Cobden and John Bright that brought free trade found the support of businessmen and the working classes alike, and even inspired poets and intellectuals. Free trade was the watchword of enlightened public opinion. There were critics of global free trade, it is true, but they were seemingly unable to counter Cobden's and Bright's league for free trade and the enthusiasm it inspired.

Of course, we now live in different times. The critics of free trade are still there, but the enthusiasm of the free-traders somehow has faltered and withered away. Even if one does not agree with them, one cannot help but admire the critics of free trade for their stubborn obstinacy. Since the days of Cobden and Bright, the same old argument has been repeated and repeated and repeated all over again. Free trade, this argument says, serves only those who are already rich and want to become even richer. The poor are deliberately made poorer while unhampered market forces are unleashed against them. Over time the argument has come up in several disguises—a nationalist one, a socialist one, and today a politically correct one. But essentially it has remained the same.

The persistent repetition of this argument over more than 150 years has not made it intel-

lectually more valid, but it obviously has helped to anchor it deeply in the minds and hearts of the people. If you look back in historical perspective at those who predicted that free trade would impoverish the already-poor, you will find nothing but a mass grave of false prophesies. Indeed, classical liberalism, under which free trade flourished so much, has been the most successful economic policy in world history. In the nineteenth century it put an end to famines in Europe, which were seen as the inevitable lot of mankind. We forget that, for instance, in eighteenth century France nine famines killed more than 5 percent of the population. When we think of the liberal period of the nineteenth century too much in Charles Dickens' terms, we ignore that, in those days, this kind of misery was effectively put to an end. Free trade was not the cause of, but the response to, misery. When we see famines today, we will only find them under non-capitalist, non-liberal, and non-free-market dictatorships such as North Korea. The era of free trade in the nineteenth century for the first time in human history made wealth for all possible.

That the free market is a source of wealth today is unquestionably true. The data confirm this. The Friedrich Naumann Foundation is one of around fifty co-publishers of an annual study called "Economic Freedom in the World," which was originally masterminded by no one less than Nobel Laureate Milton Friedman. The purpose of this study is the measurement and the comparison of economic freedom in 118 countries. Measurable indicators like the tax rate, the government share of GDP, and the extent of trade restrictions are used to find the place for each country in a comparative ranking. This is not of mere academic interest. The study has clearly demonstrated that there is a remarkable connection between economic freedom and economic growth. The heavier the burden of government on the individual, the more stagnant becomes the economy. Moreover, by correlating the results of "Economic Freedom in the World" with stan-

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dard of living criteria other than mere growth rates, it has been shown that the freest countries of the world have less illiteracy, less corruption, and a higher life expectancy than the least free ones. This alone should be enough of an argument to say farewell to any form of economic collectivism.

But what does this study say about those "left behind"? We all hear that the gap between rich and poor countries is widening. This is actually true. In the Third World there are poor countries with zero or even negative growth rates, while most countries of the First World are—at least moderately—growing. But this fact is substantially explained only if, again, you correlate it to the degree of economic freedom. Then one can see that the group of the poorest and slowest growing countries is almost identical with those that have not opened their economy and constantly interfere with the freedom of their people. Yes, there are people who are "left behind," but they are not the victims of free trade or globalization. They are victims of their own governments!

A growth rate taken in aggregate, one could argue, does not say much about the internal distribution of wealth. In the industrialized countries, so the media say, the liberalization of the economy may have created new jobs, but those are only low-skill trash jobs or "McJobs," as the pundits say in order to add the usual anti-American tone to the argument. The "working poor" is the new stereotype that is supposed to give some rhetorical ammunition for the crusaders against globalization and free trade on the right and on the left. If it was all true it still would be better than the exclusion of the less qualified from the labor market that is practiced by the over-inflated welfare states in Europe. But it is not true at all, at least not in the way it is generally presented. Not only did the new technologies not destroy jobs, they created new and better ones. Those countries that kept their markets fairly open saw an increase in demand for highly qualified employees rather than an

increase in demand for the least qualified employees. In the United States, 55 percent of the jobs created between 1983 and 1996 were for the highly qualified, about 32 percent required medium qualification, and only 18 percent required little qualification. Sometimes one should just take a look at the figures to find out what is behind the common stereotypes on globalization.

Is there, then, nothing to do anymore? Has the world economy been switched to autopilot? Do, as some prophets seem to believe, national governments completely lose their grip on the economy? Is anarchy lurking around the next corner? Again, our discourse on globalization obviously is polluted by all sorts of unrealistic clichés. Government will not perish. It still can solve many of the problems ahead. International governmental or quasi-governmental structures are already established for the solution of those problems that cannot be solved by national governments. I rather fear that we have too many governmental do-gooders on the international scene than too few. The danger is not that governments—whether national or international—will lose control. The danger rather is that they will keep control and steer the plane into the wrong direction.

The present climate of opinion, which is dominated by anti-globalization NGOs and media attention to demonstrations against free trade (such as the one in Seattle in late 1999), is not favorable to any reasonable policy approach. We should concentrate on the essentials. The WTO, for instance, must not be overburdened with social and environmental agendas. Yes, there is misery in this world. But the best strategy for help is to begin with the essential tasks of government before we impose Western European standards of welfare-statism and green ideology on other people. These essential tasks are peace, the rule of law, and free trade. We should be cautious with everything that goes beyond this. Governmental arrangements should adapt to the diversity of human civilization. The prin-

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standards, and human rights. The same principles of an open society and an open market have worked for Japan, as well. Japan is now a force for good. It is a great nation, a great exporter and a great importer. Harry Truman, George Marshall, and Ernie Bevin did not conduct opinion polls on the Marshall Plan. They decided what was right, what was wrong, and what was achievable. Why have those lessons of the twentieth century been lost?

I'm stumped by the misunderstandings about the WTO. A guy like Ralph Nader can say unchallenged, "The WTO is a secret cabal run by some insiders unaccountable and unelected." As you know, governments own the WTO, the WTO does not own them. The WTO now has 140 members. It operates by consensus. There is no WTO Security Council. Our agreements must be ratified by parliaments and congresses. So why the controversy?

In the absence of anything to hate, globalism and globalization are now the targets. "Globalization" is a horrible word. Strangely enough, a couple of generations ago, "internationalism" and "solidarity" were fine, non-threatening, idealistic words, lifting people to a higher plane. But somehow the brand of globalization is crushed down on those who should lead. It's not a policy or a plan hatched by the Trilateral Commission or wealthy people in Davos. It's a process that started probably when the first person walked out of a cave. Many economists and historians argue that trade as a percentage of GDP was higher before the First World War than it is now. Certainly, there was a greater movement of people then than now.

Information technology and financial flows have accelerated the process. The great difference is that now everyone can see what is happening. There is debate and that's a good thing. Too often people confuse technological change with globalization. Some even argue that, if you abolish the WTO, there would be no globalization. The fear people have about science is a bit scary. Technology has been the best friend of our species. India and China were faced with frequent famines through the 1960s.

Then came a science-driven "green revolution" and the authors of such great blessings as super-rice and super-wheat got the Nobel Peace Prize. Now those ideas would be met with protest and resistance. Anyone is a globalist only when their child is sick. Then they want the best medicine the world can provide.

We ought to get out and explain how costs relative to income have dropped. When I was a kid, it took a year's pay for a working-class family to purchase the *Encyclopedia Britannica*. My parents couldn't afford it. Now it takes less than one week of unemployment benefits to buy a compact disc—or nothing to get it on the internet. Alas, too many politicians and business people have lost their nerve. It is time for the business community and political leaders to fight for the values and successes of the past few decades and explain to workers and shareholders that there is no shame in profit, only in losses, and that the best security a working family has is a business that is profitable. We ought to face these challenges with humor and some humility. Anti-globalization groups, such as e-hippie and antiglobalization.com, miss the splendid irony in their titles. We need to point out again and again the overwhelming evidence that trade boosts economic growth. A study by Jeffrey Sachs and Andrew Warner of Harvard University found that developing countries with open economies grew by 4.5 percent a year in the 1970s and 1980s, and those with closed economies grew by less than one percent.* At that rate, open economies double in size every sixteen years; closed ones must wait one hundred years.

A New Multilateral Round Is the Best Way to Improve the Trading Regime

Of course, we need to improve the trading regime. I can't think of any institutional structure that cannot be improved. And if people believe the present system is unsatisfactory (and it is), and unjust (and it frequently is),

*Jeffrey Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity* 1 (Spring, 1995).

and imperfect (and it certainly is), what should we do? I say to the critics, the best thing we can do is start a new trade round so we can negotiate and attack those injustices. We can improve the trading regime and gain through further success the moral authority we lack.

Robert Stern of the University of Michigan suggests that cutting barriers to agriculture, manufacturing, and services by one-third would boost the world economy by over \$600 billion—the equivalent of adding another Canada to the world economy. If all trade barriers were abolished, that would boost the world economy by nearly \$2 trillion—the equivalent of adding two more Chinas to the world economy. It is no wonder the kids and others protest when OECD agricultural subsidies alone equal the entire gross product of all of Africa. Abolishing these subsidies would deliver to developing countries three times more than all the official development assistance combined.

We ought to heed the words of those locked out. Alec Irwin, the South African Trade Minister, said recently, “The danger of not having a multilateral round is to further exacerbate the development problem. For us in the developing world that would be disastrous.” It is marginalization from globalization that those who legitimately lead the developing world fear the most. Why is it that Singapore gets more investment than all of Africa? Why is it that London has more internet connections than all of Africa? What does this teach us?

Of course, we ought to change the way we do things at the WTO and we are. We spent one hundred hours in open Council meeting in three months at the end of last year on issues of implementation. Ten years ago we would spend fifty hours in twelve months on everything. We are delivering up a package on market access for least-developed countries and I pay tribute to those political leaders who fought with their domestic constituents over it. It is an injustice when the least developed countries, who account for half of one percent of world trade, find that the toughest and highest trade barriers are in their areas of

excellence. There are thirty member-nations that cannot afford the resources to have a mission in Geneva, but we have found new ways of connecting them to our process.

“We the People” or “We the Governments”?

Let’s not lose our nerve, because the trading system offers one of the best chances for the poorest amongst us. Let’s remind ourselves that, of course, the UN, the Bank, the Fund, the ILO, and the WTO are imperfect, but the world would be a less stable, less predictable, and more dangerous place without them. Over the last twelve months, the WTO has welcomed Jordan, Georgia, Albania, Croatia, Oman, Lithuania, and Moldova to membership—almost thirty million people. While there may be a few thousand protesters outside the meetings in Washington and Prague and Seattle, there are millions queuing up to join the WTO because they believe a rules-based system is an opportunity for their people. They are inspired by such leaders as in Yugoslavia, who said, “Membership in the WTO is part of our democratization movement.”

I don’t want to underestimate the depth of feeling and alienation of protesters, though we ought to better connect ourselves with our true owners—the governments. We are taking action in that regard through, for example, conferences with the Inter-Parliamentary Union and the European Parliament, and by making ourselves available more often to the governments and parliamentary and congressional committees. Of course, I’d like to see the WTO more transparent, and it is becoming so. The NGOs are not always wrong, but they’re not always right, either. They represent the best and the worst of our species—from the young men and women who get their university degrees and then go into the bush to help the poor, to entrepreneurs and marketers feeding off the anxieties of others. I confess to uneasy feelings when some NGOs and even some international institutions start questioning the legitimacy of our real owners, the governments. The debate must be held. It is profound and it is painful. Do the international

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agencies represent “We the People” or “We the Governments”? I guess I’m old-fashioned and shaped by a parliamentary experience whereby legislators create the laws and the rules, and the people create the legislators.

However, this we know to be true: No nation can enjoy clean air or water, manage a tax system, or manage airlines without the cooperation of others. We all depend on our neighbors’ success for our own success. As governments contract out to international institutions and agreements—whether the WTO, the ILO, the Antarctica Agreement, the Law of the Sea, etc.—those governments have an obligation and a duty to insist on greater oversight to make those institutions and agreements more accountable, to give them the resources they need to be more transparent, and thus more accountable to the real owners of both international institutions and governments—the people. And finally, when we talk of labor, environmental, indigenous, or gender issues, we need to think not just about the principles involved, but the jurisdictions of those institutions we created.

The gaps in the international architecture are glaring. They will not be fixed by the odd seminar or assembly of NGOs, pressure groups, or lobbyists to safeguard and protect society from international institutions. Keeping the architecture intact is one of the great challenges that political leaders will face this century. It is true, the institutions are creaky, inefficient, middle-aged. It is time the WTO had a check-up and a reality check as all middle-aged people and institutions should. Ironically, some NGOs and pressure groups say the WTO has too much power. Then, after saying the WTO has too much power, they want to load it with responsibilities that will increase that power, whether it be regulating indigenous rights, or gender or women’s rights, or labor rights, or whatever. If that were to happen, then the WTO really would be a threat to you all!

Mike Moore is Director-General of the World Trade Organization and former Prime Minister of New Zealand.

FRITS BOLKESTEIN

Getting the Multilateral Trading Agenda Back on Track

It comes easily to me to underline the importance of an open and free world trading system. As European Commissioner for the Internal Market and the Customs Union it is my daily task to protect and preserve the largest and most advanced free-trade system in the world. As an active liberal politician for more than twenty years, I cannot but rejoice over the emerging, although sometimes fragile, consensus on the merits of free trade. As a former industry man with a multinational company, I find the advantages that free trade holds for economic operators stand to reason. And as an economist, I find the century-old logic and the massive empirical evidence of the economic effectiveness of free trade irrefutable.

Not only is the evidence of free trade as a fundamental means to achieving economic efficiency overwhelmingly persuasive. That system is also an agenda for justice and fairness and openness to aspirations. It is an inclusive approach. It is a moral approach. With greater economic efficiency the cake becomes bigger and there is more for all to share. Free trade also allows each participant to enjoy the full benefits of his relative strength without others being allowed to neutralize that strength in an artificial way. The multilateral free-trade system is a champion of rapid economic development for underdeveloped countries.

It is therefore doubly regrettable that the globally-organized trade system ran into more problems of legitimacy a short while ago than at any other time since the revival of free trade after the Second World War. There is no way around it. While the agenda itself is immense-

ly strong and inclusive, it was a failure not to have been able to explain it in a way that sufficiently persuaded the increasing numbers of participants from countries with varying levels of economic development of its benefits. It was also a failure not to take the debates circulating in important parts of civil society seriously enough, thereby inadequately addressing their concerns. Having recognized these failures of persuasion and presentation, it is time to rebuild consensus and bring the system back on track again. But the new agenda must take account of recent experiences. It must not repeat the errors of the past.

Europe's Role and Agenda

Europe is well placed to assist in building bridges and nursing some new dynamism back into the process. We have to construct the basis upon which it will be possible to relaunch a comprehensive new round of multilateral trade negotiations. Europe, and the European Union in particular, has a historical responsibility to foster dialogue and cooperation between the richer and the poorer quarters of the world. Recent experience has demonstrated this European role. One of the most important international agreements in many years, the Kyoto Protocol on Climate Change, would not exist today without the success of the European Union in keeping the developing world and the industrialized countries together in the same negotiation.

Europe should also demonstrate such negotiating skills in the trade field. My very able colleague Pascal Lamy will lead the field as far as the European Commission is concerned and that is a cause for optimism. A European agenda for a new round of talks to improve the world trading system must remain broad. We have a well-established book of rules and a functioning organizational structure. We should build on these rules and this structure to strengthen the existing system. But we should do this in a way that more clearly addresses the interests of all participants, and in particular the interests of developing countries.

Within the Commission I have been a strong supporter of our recent initiative to enhance market access across the board for the poorest countries of the world. I have been somewhat disappointed that it has so far proven difficult to maintain the highest level of that ambition. European farmers should sooner rather than later come to grips with the realities of world trade. Nonetheless, the Commission's initiative remains important and should demonstrate the willingness of Europe to encourage what one could almost call confidence-building measures. Our general approach on issues of market access—whether on agricultural products, industrial products, or services—will be a key to our success in revitalizing the negotiating process. Europe has some soul-searching to go through here and should, hopefully, come out as leader of the pack, pushing the rest of the world to follow suit.

I also support a balanced approach to the sensitive issue of access to drugs. I subscribe to the analysis of this issue set out by Director-General Mike Moore some time ago. The Commission has been working actively in this area to promote accelerated action targeted at major communicable diseases. It cannot be questioned that there is a need to ease the flow of vital drugs to developing countries. But it would be a marksman's shot in our own foot if we did this at the cost of discouraging investments in the drugs of the future. The approach set out in the TRIPS agreement is therefore the right one, namely, that any measures which involve restricting certain aspects of intellectual property rights should be balanced by adequate compensation. The existing provisions of the TRIPS agreement are sufficiently flexible and give clear guarantees in this respect. This agreement obviously does not prevent—and I would consider it an excellent idea—supporting access to drugs more actively via development aid budgets.

At the same time as strengthening the developmental aspect of our approach, it should also remain part of the European agenda to argue in favor of rules on issues such as invest-

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ment and competition. The logic behind such a policy is compelling. The more we open our trading system, the more urgent it becomes that we have some basic rules of fair play. Some of our partners may have difficulties with this, so why not open the door to optional membership of those rules? This is not a perfect solution but it may start the process and allow all partners to take an active part in the negotiations while reserving their right not to participate at the end of the negotiating cycle.

It remains true that there is a need for a global dialogue on trade and social development. But it is equally true that such a dialogue should have a broad setting. The WTO is not the only institution to be involved in that dialogue. We should therefore pursue it in a multi-institutional setting that would involve all relevant international institutions in a solid timeframe.

We also have to tread carefully as regards trade and environmental protection. It is evident that a clarification of the relationship between the numerous multilateral environmental agreements and the WTO rulebook would be useful. But to be credible with our partners any such dialogue must explicitly rule out all possibilities of discriminatory practices or disguised trade restrictions.

* * *

Ladies and Gentlemen, I am convinced that there is an urgent need to get the multilateral trade agenda back on track again. The greater prosperity brought to us by free trade is not a given and the risk of the world lapsing into ineffective protectionism is real. It is a duty of all policymakers to ward off this danger. We must do so not in splendid isolation, but with a subtle and sensitive feeling for the different requirements of the various partners in the process. Without such subtlety and sensitivity we shall surely fail.

Frits Bolkestein is Member of the European Commission (Internal Market).

TORU KUSUKAWA

The Complex Path Ahead

In the past, Pacific Asia enjoyed strong growth thanks to economic policies that were mainly concentrated on the sustainable expansion of exports. As we know, this is in contrast to the failed policies of South American countries that concentrated on building up their industries for the purpose of import substitution. The emphasis on exports put the Pacific Asian countries firmly on the side of free trade and led to the opening of their markets to foreign industries. This situation worked fine and produced remarkable prosperity until the Pacific Asian countries were faced with a sudden change of environment caused by turbulent currency fluctuations and the drastic reversal of short-term capital flows.

Although many countries in the region continue to adhere to the principle of free trade and open markets, they now feel somewhat uneasy with all-out liberalization, particularly regarding the liberalization of capital account transactions. Many things can be said about the cause of the Asian economic crisis, but it is quite clear, as APEC has pointed out, that hasty liberalization and underdeveloped financial infrastructure proved to be risky and ultimately very costly. Both the “globalizers” and “globalized” miscalculated the situation. This is a point that we need to remember when we discuss future trading regimes.

Structural Changes Widen the Agenda

We also have to keep in mind the new reality created by the evolution of information and communication technology (ICT) that somewhat blurs the borders of nation-states. This evolution has changed how we conceive of trade and how we perceive the movement of commodities and people across national

boundaries. Another element we have to consider is the importance of the tertiary sector. When industrial countries undergo structural changes, the tertiary sector's share of GDP grows far larger than that of the secondary sector. This is why we now have GATS—General Agreement on Trade in Services—alongside GATT. Surely, trade in goods is still important, but we now have trade in services, as well.

Foreign direct investment and e-commerce are replacing traditional modes of commodity trade. The size of corporations' internal trade is reducing the validity of traditional trade statistics. In fact, the EU is no longer strongly affected by external trade and currency fluctuations. The movement of production sites across borders has replaced some portions of trade while the tertiary sector acts as a stabilizing element in times of economic fluctuations. In this sense, the imbalance of outward and inward investment in Japan has to be regarded as a very important trade-related issue and understood as an inevitable challenge.

The Qatar Ministerial Must Succeed

With the failure in Seattle, we have to emphasize that the coming negotiations in Qatar cannot fail. Failure would be a serious blow to the future of the WTO. Its integrity is at risk. Developed countries should make their best efforts to meet the demands that were made by Brazil, India, Egypt, and other developing countries in Seattle. I understand that many of these demands have by and large been attended to already. There is a dilemma between democracy and efficiency. While we have to address the concerns of all 140 member-countries, at the same time there is a time constraint and we have to be efficient. These two things must be balanced and that is really a very difficult job for the Director-General. Like the European Union, Japan wants a comprehensive approach to negotiations covering not just the built-in agenda of agriculture and services, but also issues such as anti-dumping, general tariff reduction, GATT and GATS harmonization—that is, harmonization of

rules and procedures—and investment, especially foreign direct investment. Government procurement transparency and movement of persons across national boundaries are other subjects Japan would like to see covered.

There are other issues I am sure. The question is whether we can make any satisfactory progress on any of these items in Qatar. Have we got enough time to smooth the way? We must endeavor to meet the timetable, but if we cannot really fulfill that, then we had better tone down expectations to realizable levels. I am concerned about the United States and Japan. The new administration in the United States has to work hard to meet this timetable and Japan has Upper House elections in late July that might produce uncertainty in the preparations for Qatar.

The other subject that may concern the future of the WTO is the growing criticism of globalization. I won't get into the details, but there are issues like global fairness that we have to consider very seriously.

Japanese Bilateral Arrangements Can Support Multilateral Objectives

The WTO is not perfect. There is room for other forms of negotiations. For instance, there are regional arrangements, bilateral arrangements, and unilateral action. Quite recently we have so-called "plurilateral," or "opt-in" and "opt-out," arrangements. These open-ended forms should not be rejected altogether. The question is whether they are WTO-consistent or not. They should be building blocks for achieving WTO objectives and not stumbling blocks.

Japan has recently changed its trade policy, although it still adheres to the priority of multilateral negotiations such as the WTO. Japan feels that additional approaches might also be useful. This change of policy has stirred some suspicion among some of our friends because Japan has in the past criticized others who deviated from the WTO framework and concluded bilateral or regional FTAs.

The proposed pact between Japan and Singapore is to be called a "New Age

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FOR JAPAN, FTAs ARE ESSENTIALLY DOMESTIC POLITICAL MATTERS. A LOT OF WORK HAS TO BE DONE AT HOME TO IMPLEMENT AN FTA—REGULATORY ADJUSTMENT, CHANGES OF MARKET PRACTICES, AND ABOVE ALL, REFORM OF THE AGRICULTURAL SECTOR.

Economic Partnership,” rather than an FTA. Is this term just rhetoric or is there something more to it? I think there are some ambitions to introduce a new type of trading pact. The commodity portions in the proposed Japan–Singapore New Age Economic Partnership are relatively small. The focus is more on regulatory liberalization, service sectors, science and technology, and human resource development. Preliminary studies are also being made for such FTAs with Korea, Mexico, Canada, and even with New Zealand.

For Japan, FTAs are essentially domestic political matters. A lot of work has to be done at home to implement an FTA—regulatory adjustment, changes of market practices, and above all, reform of the agricultural sector. Japan knows about Article 24 of the WTO. It knows about APEC’s Bogor Declaration with a time limit of 2010 for industrialized members. Japan knows what it has committed itself to. We endorse the spirit of the WTO. That is why I have to ask our politicians what will be done in connection with these commitments, particularly in the agricultural sector. Agriculture is a delicate issue not only in Japan, but also in many other countries. It is always connected to important political constituencies. It has a special character, history, and associated lifestyle. The Japanese people still remember past starvation and want to be assured of an adequate food supply. It is, therefore, primarily a matter for political leaders, who should demonstrate their political will and exercise their leadership to sort out this problem. Some countries, fortunately, have very strong political leaders; others, unfortunately, do not.

Future of Regional Arrangements

NAFTA and the EU are the most representative regional arrangements. There is some further movement to expand NAFTA to a Free-Trade Area of the Americas. The EU always has widening and deepening challenges. The interesting thing about regionalism in these two areas is that it also involves some sort of

key currency issues. There is the issue of “dollarization” in Latin America, of some countries unilaterally taking actions to adopt the U.S. dollar as their own currency. Similarly, there is a movement in Central Europe to adopt the euro as their own currency, regardless of the Maastricht criteria. If that happens, then the concept of regionalism may change quite a lot. What should be done in this situation? In Asia we have started the Ten-Plus-Three group—ASEAN plus China, Korea, and Japan—to try to prevent future financial crises. But I feel that any Ten-Plus-Three arrangements might be quite a time-consuming process. Furthermore, it will need to somehow include Australia and New Zealand. Otherwise, it will be difficult forming the sort of regional support we need.

There is one last issue that I want to mention. As a member of the APEC Business Advisory Council, I was deeply involved in the affairs of APEC. There has been some criticism that APEC is not functioning well. This criticism is based mostly on APEC’s limited contribution to the resolution of the Asian financial crisis. This observation is partly right, but also partly wrong. It is a bit too harsh because APEC is composed of only foreign ministries and trade ministries, with finance ministries quite separate. The resolution of the Asian financial crisis was sought by the region’s finance ministers, and therefore was outside the main APEC process. As such, I do not think APEC should really be criticized for its inability to cope with the situation. In the future, the APEC finance ministers should be integrated further into the broader APEC process, to make APEC’s function as a regional cooperative organization more comprehensive.

Toru Kusakawa is Senior Counselor, Fuji Research Institute Corporation and former Japanese Delegate to the APEC Business Advisory Council (1998–2000).

New Multilateral Round Vital to Counter Drift toward Three-Bloc World

At this morning's meeting of the Executive Committee of the Commission, some members underlined their strong views that strains within the Trilateral world were posing risks of significant international tension and indeed conflict. I think the outlook for the global trading system is one of the clearest cases in point. We talk a great deal about the problems between industrial countries and developing countries in the WTO. Indeed, a greater responsiveness to the needs of the poorer countries is a critical element to restoring confidence in the WTO and moving ahead with its agenda. But even more critical are two severe challenges to the entire global trading system which emanate from within the Trilateral world.

The Risk of a Transatlantic Trade War

The first is the immediate and severe risk of a trade war between the United States and the European Union. There are over a dozen serious sectoral and functional conflicts between the United States and Europe at this moment. The United States has already retaliated on beef and bananas. Europe is threatening to retaliate over U.S. export tax subsidies and the "carousel provision" of U.S. trade legislation that requires the President to rotate his retaliation in order to make it bite harder. New conflicts are threatening over steel and anti-dumping issues more broadly, and over aircraft subsidies. The "agricultural peace" clause, which is keeping that most volatile of

all sectors under control for now, expires in the next two years.

We have heard just this week in both Washington and Brussels that the linkages between these issues could produce a trade war. The new U.S. Trade Representative, Bob Zoellick, our former Trilateral colleague, has made very clear that, if Europe does not meet his test on bananas, he will be forced to implement the carousel provisions and increase U.S. retaliation.¹ The Europeans have made clear that if the United States does that, it will have no choice but to hit the United States over its \$4 billion of export tax subsidies through the FSC Provision. In short, the United States and Europe are very close to a trade war. Good diplomacy has kept it under wraps and a bit quiet at the moment, but there should be no illusions among us. It may seem perverse and anomalous in this world of new technologies to be fighting over beef, bananas, even aircraft and steel, but that is still the reality of the global trading system and it is putting us literally, in my view, on the brink.

A Potential East Asian Bloc

The second huge challenge to the trading system emanating from within the Trilateral world is more subtle, but perhaps even more serious and potentially more disruptive not only to the trading system, but to Trilateral relations more broadly. We face the real potential of a true Asian trading bloc for the first time in history, as Kusakawa-san began to discuss. We discussed this issue last April in Tokyo and at the initial meeting of the Pacific Asian Group in Seoul in November. But there have been enormous developments even since November. As Mr. Kusakawa mentioned, there are a number of bilateral regional arrangements underway within East Asia, such as between Japan and Singapore. But

¹The United States and the European Union reached a tentative agreement on bananas on April 11 that would eventually transform the European system of mixed tariffs and quotas into a tariff-only system by 2006.

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much more significant is that Zhu Rongji proposed a China–ASEAN Free-Trade Agreement at the Ten-Plus-Three summit in Singapore in December, which was converted by the heads of state into a serious study of a full East Asian Free-Trade Area. That study comes on top of an initiative already taken a year earlier after the Japan–Korea FTA talks to broaden it to include China. A Northeast Asia free-trade arrangement is being seriously analyzed by designated think-tanks in the three Northeast Asian countries.

The critical point is that all three Asian economic powers have reversed their positions on this issue. Until recently it was only Japan, China, and Korea that participated in no regional agreements. The rest of the world did so. China, as I say, has proposed an East Asian Free-Trade Agreement. Japan is pursuing aggressively a series of bilateral agreements and is involved in the efforts to create Northeast Asian and East Asian free-trade agreements. Korea has similarly reversed its position. All of these initiatives are in addition to the substantial Asian movement toward an Asian Monetary Fund, though they don't now call it that. My guess is that within the next two or three months they will announce the initial steps, including about \$50 billion of currency swaps, coordinated exchange rate arrangements, and early warning systems to prevent crises.² What all this means is that, within a few years, Prime Minister Mahathir's East Asian Economic Group could exist, albeit with a different name and with different motivations. Nevertheless, it would bring together more than one-third of the world economy into a new meaningful, effective regional economic grouping.

The Imperative of a New WTO Round

From a U.S. standpoint, this raises the possibility of what I call two-front economic conflict.³ From a global standpoint, it raises the prospect of a three-bloc economic world for the first time in history. The prospect of a three-bloc world combined with the existing

U.S.–Europe problems would pose an enormous two-fold challenge to our global trading system, and the world economy and polity more broadly. What it suggests is the absolute imperative of reinforcing, re-strengthening, and reestablishing at the center of the global economic system an effective, functioning, multilateral umbrella—in the trade case, in the World Trade Organization.

I don't want to be totally negative about regional organizations, and as all of you know, I have never been. Indeed, the post-World War II history is a story of steadily ratcheting-up of liberalization driven sequentially by regional and global initiatives. Every time the Europeans took a new step toward greater trade integration or economic unity, the United States and others responded by calling for a global round; in turn, the Europeans responded and barriers were reduced worldwide. There has been a positive dynamic, but it has required firm, cooperative leadership by the global powers. The issue is whether that same kind of leadership will continue in the future if a third major economic regional grouping in Asia emerges.

It is clear that the only way to resolve these potential risks is for the WTO to be reinforced, reestablished, and reinvigorated at the center of the trading system. Only that kind of multilateral step will subsume the major bilateral disputes—like those between the United States and Europe—within a broader enterprise, provide a broader strategic vision that can overcome the captured politics of individual sectoral problems, and therefore resolve trade disputes without digressing into conflict at the global level. A new forward momentum is required in the global trading system through the WTO. This momentum can only be achieved by the launch of a major comprehensive new round of multilateral trade negotiations.

²In mid-May 2001 a series of currency swap arrangements were announced among the central banks of the ASEAN-Plus-Three group.

³See C. Fred Bergsten, "America's Two-Front Economic Conflict," *Foreign Affairs* 80 (2): 16–27.

Launching a new trade round requires the Trilateral powers to get together. The United States, the European Union, and Japan are going to have to agree to get it going and soon. At Seattle, they were in total disarray. They disagreed fundamentally over a whole series of issues and the meeting broke up in total failure. The challenge between now and this year's WTO Ministerial in Qatar is for the Trilateral countries to get their acts together and overcome these enormous threats and challenges that I described. The EU, for its part, is obviously going to have to be willing to talk seriously about agricultural reform. Yet we hear from the French and some other Europeans, "We can't possibly do that until after our election; maybe we can't do it until after 2006. We don't know if it's possible." For its part, the United States has been stalemated over these issues for five or six years. As you know, our president has had no new negotiating authority since 1994 and therefore the United States has been unable to participate actively in, let alone lead, any multilateral trade initiative. The United States was unable to put forward any kind of balanced proposal at Seattle and that was enough to create a complete failure there, although the disagreements with Europe and Japan made it even worse.

Underlying Difficulties in the United States

There is no doubt in my mind that the new administration in the United States is going to do everything it can to overcome this stalemate. President Bush and Bob Zoellick have both made crystal clear (including in testimony by Mr. Zoellick to the U.S. Congress) that they put high priority on getting the United States back in the trade act in broad terms and in launching a new round in the WTO. The issue is whether they will be able to do so in light of the situation in the Congress and American policy more broadly. Indeed, the battle lines were already drawn this week. Bob Zoellick laid out the administration's broad

views and Sandy Levin, who leads the Democrats on the House committee responsible for trade, laid out his views at the same time. The two sets of views were opposite in both substantive and tactical terms, indicating that there is a great deal of work to be done at home over these next few months.

Jay Mazur described quite colorfully yesterday some of the opposition to globalization in the United States. But I must tell you, it's not just Jay Mazur. The Institute for International Economics has just published a study showing that, over a series of six hundred polling questions over the last thirty years or so, the American public is basically split right down the middle on the question of globalization.⁴ The split in the Congress accurately reflects the public. Americans with at least some college education love globalization; but those without are very anxious about globalization's disruptive effects and worry about dislocation. Another IIE study shows that, of all the American workers dislocated by trade—of which there are several hundred thousand per year—about one-third take annual lifetime earnings losses of 30–40 percent.⁵ It's a small number of the total population, but it has a significant effect. Other workers fear they may go that same way and, therefore, are leery of the whole process. This polling also shows that if we put effective domestic programs in place to help dislocated workers, then support for globalization and open trade goes up sharply. The challenge to us domestically is to put programs like that in place.

In sum, there are deep underlying difficulties in the United States in moving ahead and the outcome is uncertain. Our underlying economic outlook is getting worse. The slowdown of the economy—though I think it will be relatively short-lived—will certainly push

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

⁵Lori Kletzer, *Job Loss and Competition from Imports: How Much, How Costly?* (Washington, D.C.: Institute for International Economics, forthcoming).

...THE AMERICAN PUBLIC IS BASICALLY SPLIT RIGHT DOWN THE MIDDLE ON THE QUESTION OF GLOBALIZATION. THE SPLIT IN CONGRESS ACCURATELY REFLECTS THE PUBLIC.

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unemployment up. Since our trade deficit is hitting about \$500 billion this year with steady growth in that number, we will hear charges that the trade position is hurting the economy rather than helping it, which, of course, it does.

(Parenthetically, I might note that the trade deficit requires the United States to borrow \$2 billion net from the rest of the world every working day, which raises the potential risk at some point of a sharp fall in the exchange rate of the dollar. This risk, in my view, will be exacerbated by the large tax cut now being proposed in the U.S. Congress because any such tax cut must in fact be financed mainly by the rest of the world, given the low level of private saving in the United States.)

The Necessity of a Broad Agenda

The bottom line is that our work is cut out for us in all parts of the Trilateral regions. It is clearly imperative to launch a new multilateral trade round quickly to deal with the immediate threat of a transatlantic trade war and to make sure that the incipient new regional developments in the Pacific are channeled in a constructive direction. To do so, the agenda has to be broad. Europe has to be ready to talk about agriculture; the United States has to be ready to talk about its anti-dumping laws, as well as competition and investment policies; the developing countries have to be ready to talk about labor and environmental issues. The history of the GATT is that big is beautiful in terms of launching and moving forward with trade initiatives. Everybody's interest has to be on the agenda if a launch is to be effective.

If we are unable to launch a new trade round and restore the forward momentum to the global trading system very quickly, then I think we have to face the serious possibilities that there will be a trade war across the Atlantic and that within five years we could easily have a new Asian regional bloc that could detract from the stability of the system. The challenge to all of us in the Trilateral

world is to do everything we can within each of our regions to move this issue toward positive and constructive resolution over these next few months. The outcome, I think, will be essential not only to the world economy, but to Trilateral relations and even to world politics more broadly.

C. Fred Bergsten is Director of the Institute for International Economics and former U.S. Assistant Secretary of the Treasury for International Affairs.

THERE ARE HUNDREDS OF ORGANIZATIONS THAT DEAL WITH DIFFERENT ISSUES. YOU MIGHT SAY THAT WE HAVE ISLANDS OF GOVERNANCE IN THE INTERNATIONAL SYSTEM.

nia to reach all the continents of this globe; it took HIV about three decades. So we may be left by bad policy decisions with the end of the good types of globalization, with only some of the bad aspects of globalization.

That's why people call for more government or governance of globalization, and that often leads people to talk about the need for world government. I think when you read the answers to the questions that were provided to the respondents, there is a unanimous consensus that world government is not going to happen—not world government on the model of a nation-state writ large. In that sense we should not be looking for a domestic model or a domestic analogy as to how we're going to solve this. There is a great deal of "governance" that already exists. To some extent we're like Molière's *Bourgeois Gentilhomme*, speaking prose without noticing it. There is not only the United Nations system, not a world government but dealing with a number of global issues. There are hundreds of organizations that deal with different issues. You might say that we have islands of governance in the international system. If you think of trade, if you think of air traffic, if you think of postal systems, if you think of meteorology, all of which have organizations associated with them, a rich set of islands of governance was created in the international system in the second half of the twentieth century.

Multilateral Governance and National Democracies

The problem that we face now is that the legitimacy of these organizations is being called into question. That gives rise to this issue of the democratic deficit. When you ask people why they question the legitimacy of these organizations, the protesters often say: because there's a democratic deficit. They are not consistent with the procedural legitimacy of democracy that is essential in the twenty-first century.

Now the term "democratic deficit" really grows out of the literature on Europe and the concerns about the role of the European

Parliament. The term doesn't transfer well from the European situation to the global situation. It's difficult enough in the context of Europe (where the countries are relatively similar) to think of parliamentary control. It's almost impossible to think of a world parliament. And therefore to use this term "democratic deficit" as though we were imagining a world parliament is a mistake. Tennyson's "Parliament of Man" was great Victorian poetry. It's pretty poor political analysis.

When we look at democracy we have to be honest and realize that democracy occurs in nation-states. Democracy occurs essentially when there is a political community. Only when there is a sense of political community will a minority acquiesce in the will of the majority. If we look at this at the global level, will people really be willing to be continually out-voted by the two-and-a-half billion Chinese and Indians? I think the answer is no; and we're kidding ourselves if we think that's going to be the shape of the solution. When we are looking at this issue, we've got to get away from the idea that it will look like domestic democracy.

So democracy occurs in national states and these international institutions are the instruments or the agents of national governments. Since national governments are elected, what's the problem? There are three problems actually.

One is not all the members are democratic, something that Jessica Einhorn points out in her responses.

The second is the issue of long chains of delegation. People sometimes feel that there is such a distance between those who are elected and those who are running the organizations that the legalistic argument is not enough.

Third, perhaps most important, is that these institutions created in the second half of the twentieth century as the agents of states are, as somebody said yesterday, actually the agents of parts of states. What we've developed in the second half of the twentieth century you might call the "club model" of international organization. Think of GATT and



addresses. It was set up as a non-profit corporation under California law to avoid the cumbersomeness of a formal intergovernmental organization like the International Telecommunications Union. While some of the board is appointed, there are direct elections by internet users for other members of the board. Now, these direct elections, when they were first held last fall, suffered one of the major problems which can happen in situations like this—they were captured by those who organized well. So the ICANN experiment with direct election was not a full success. But this doesn't mean you couldn't design a way that could be more successful.

Another type of experiment is to think of what are called trisectoral networks, organizations in which part of the membership is from governments, part from NGOs, and part from the private sector. The World Commission on Dams (which the World Bank helped to set up) had twelve members—four from a governmental background, four from an NGO background, four from the private sector. It tried to develop guidelines for how large dams should be created or not created, and has been relatively successful in developing a consensus.

So these are some examples of the types of experiments we could be undertaking to supplement, not to replace, the club model of international institutions that has served us so well so far.

* * *

These are mere suggestions. The questions are more important than any of my own answers. But the need for us as a group to develop answers is absolutely essential. If we don't, public opinion is going to be shaped by the demagogues; and we would all be worse off for that.

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lives. They are more interested in self-management and organization, willing to join grass-roots efforts to combat problems. They are intolerant towards inefficiencies and lack of voice, which is in tune with the desire for authenticity and integrity. In business and in government, ethics matter and have to be transparent. Thinking small and local is just as important as thinking big. Authoritative communication is less credible and less arrogance is wanted.

- *The flow from ideology to the need for meaning.* There is more emptiness in people's lives. Old ideologies and belief systems are in decline. The search for greater meaning in everyday life motivates many activities. People want an anchor in their lives, but want their own value systems to be flexible. They want balance in their lives and focus on quality of life, not lifestyle.

- *The trend from an organized social structure to a network culture.* Ease of communication has resulted in massive increases in the levels and diversity of interpersonal contact, including an increase in word of mouth and more "human" networks. There are also opportunities for new services that put people in touch with products, information, and other people. But people also want to be able to "unplug" when they want privacy.

There is a growing sense that daily life has become too stressful and that security is undermined. In the application of Maslow's "Hierarchy of Human Needs," sustenance is assured, but security is threatened. Esteem is under attack, and self-actualization comes hard. Crude hedonism is on the rise, with more drugs and more anti-social behavior—and growing faster among young women than young men. Too many are what we call the "underwolves," the underdog who bites back. There should be no one in this room who is not aware that in the rich world today there are three people working to support one pensioner. By 2030 this ratio will fall to 1.5 to 1. It will take between 9 and 16 percent of the

GDP in these countries to support today's pension promises, never mind the increased cost of health care and housing that will be required. Now pensioners represent one in five of the adult population, and one in four will be a pensioner in two decades. The typical retired household occupant in twenty years will be a lone woman.

All of this will result in resentments building up: young against old, poor against rich, rural against urban, scientists against the people, producers against consumers, the people against the Institutions, central government against local government, globalized against the globalizers, and everybody against big business. Engineers want high tech; people want high touch. And most challenging of all, working-class groups feel excluded. They are anxious about new technologies and resistant to new ways of working.

Implications for Governance

There is receptivity in the British electorate to electronic government, but at the same time dissatisfaction with how they are being governed. By listening to, and learning from, people's views, government is better able to provide the services that people want. The use of surveys by the British Government dates back to the Second World War and these days most government agencies use a variety of market research methods to inform their thinking. The People's Panel we are doing for the Cabinet Office takes this one step further by providing a research tool that can provide consistency in approach over time in examining the public's views of public services. It has been used recently to carry out research about the development of electronic government.

We found that there is strong support for being able to contact government through call centers. But nine out of ten people thought it was important for a person to answer rather than hear a recorded menu of options. There is significant support for local services becoming more directly responsive, for example, through referenda and the election of local mayors.

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People's satisfaction with individual public services increases in proportion to how well a service keeps them informed about what it does. Openness is key to public satisfaction.

Attitudes towards new technology are mixed. On balance, people agree that it will make dealing with government easier, but confidentiality and other issues cause concern. There is also a mismatch between those more attuned to the potential for electronic government and those who make most use of public services.

Who Do the British Think They Are?

In a survey we carried out for *The Economist* in 1999, we tried to find out who the British thought they were, and who they saw as their allies. First, we updated a survey first carried out in 1969, when around four in ten of the British saw as their main partner the Commonwealth, and only about one in five each thought Europe or America. In 1999, 16 percent of the British said Europe would be Britain's most reliable political ally, 15 percent the Commonwealth, and 59 percent America. Thirty-six percent of the British thought Britain could learn something from Germany in the way the economy works, 34 percent from America, and only 5 percent from the French. And when asked about the way democracy and government work, we found America well in front with 36 percent, Germany second with 23 percent, and France again in third place with only 6 percent. A cynical one in six said that none of them had anything to teach the British about governance, thank you very much.

We probed local and national identities and found 41 percent identified with their local community, 50 percent their region of the country, 45 percent the country (England/Scotland/Wales)—but 72 percent in Scotland and 81 percent in Wales—and 40 percent Britain—but only 18 percent in Scotland. Only 16 percent picked Europe and even fewer, 9 percent, the Commonwealth. Over a third, 35 percent, said they least identified

with Europe, and only 21 percent said they identified with the European Union's twelve starred flag, nearly as many as the 23 percent who said they identified with the American Stars and Stripes!

No Euro Referendum before 2005 Election

Take it as read that the British electorate will return the Labour Government to office on May 3 with a majority most politicians only dream of. My current guess is a Labour majority of between 100 and 120 seats, far less than the current polls are showing, but still a healthy Labour majority that Wilson and Callaghan would have never dreamed, much less Foot or Kinnock.

I do not believe that in the life of the next Parliament, 2001–2005, Britain will find it politically expedient to join the Single European Currency. Last July I forecast that the Blair Government would call the promised referendum on British entry into the Single European Currency this November. I predicted that the referendum would succeed but just, based on the nearly half of the British who are generally in favor of British entry into the Single European Currency but could be persuaded either way. I now believe that the referendum cannot be won, and therefore will not be called in the life of the next Parliament.

The likeliest outcome of the election in 2005 is a narrow win for Labour, either independent of the Liberal Democrats, or in conjunction with them. Either way, Labour will need the Liberal Democrats for the following Parliament in coalition, the price of which will be referendums on both the Euro and proportional representation. By 2005, it will become apparent, even to the Conservative Party, that Britain cannot remain outside the Single European Currency and still have much say in the future of Europe. For the future of Europe will be—within my lifetime—by any other name, a United States of Europe.

* * *

All of us here today know that new technology brings benefits to people both through business and through government. Yet half or more of the public are not convinced. It isn't easy to either prosper in business or govern in a technological age. Yet that is the Age we are in. We have to worry not only about adults who are skeptical or afraid of new technology, we have to worry about the children who are as well. They are not many, but they include the one in twenty who disagree that it is important for them to learn about how to use computers at school, the 8 percent who reject the idea that computers make learning more enjoyable, and the 15 percent who say they find computers too complicated to use. Technology brings people together across the world. It can be and should be a force for good in our society. Information is power, and technology is an enabler of people power in the hands of the people. And that's got to be good—for Britain and Europe, and for the USA, and Canada, and for the world—if together we who do research can help our clients in the corporate sector, in the civic sector, and in the NGOs to understand, to anticipate, to proactively respond and go with the grain.

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BILL EMMOTT

The British Economy

Over the past ten or fifteen years, speeches about the British economy were all about how we were no longer as bad as we had been before and how we were not making the sins of the past. To some degree we are still saying this. But looking at whether Britain and its economy no longer commits the sins of the past is not a sufficiently stiff test of our economy and our prospects. We really need to look at what we are creating for the future and how we stack up compared with our equivalents.

Inflation. Inflation in Britain has been uncannily stable. This was true before 1997 when the Labour government made the Bank of England independent, and it has been very much true afterwards. During that period we've also had a very tight fiscal policy. Perhaps what was most notable before 1997 was the sharp drop in the pound's value when Britain was forced to leave the Exchange Rate Mechanism of the European Monetary System. Many people, including me, thought that we would again have a spike in inflation. That was the dog that didn't bark. It did not happen. Now we have stable inflation. The Bank of England's target rate is 2.5 percent, and if the Governor of the Bank of England misses that rate—either too high or too low—he has to write an open letter to the Chancellor of the Exchequer apologizing for this. We all expected him at some stage to have to write a letter apologizing for having too high inflation. He is quite soon going to have to write a letter apologizing for having too low inflation.

Unemployment. Low unemployment is, of course, the indicator that brings the most joy to any politician. British unemployment has

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halved in the last nine years. At the same time, employment as a percentage of the working age population has risen to 75 percent, back up to the level of the 1970s. We've gotten rid of the resistant long-term unemployment problem that we still had during the 1990s. The unemployment rate, based on the International Labor Office measures, is roughly half the unemployment rate in our European neighbors.

GDP Growth. In the 1990s, Britain outperformed the current members of the European single currency. This performance led, I think, to a regrettable superiority complex in Britain. It was very often said that the British economy was now overtaking and out-performing our European partners. What happened in the end of the 1990s and still now, is that euro-area growth has overtaken growth in this country. But we have been tracking each other quite closely for the last two years. What's notable for our North American friends is that those growth rates, even now, are about a percentage point below the growth rate that the United States itself has been seeing over the last few years.

Manufacturing and Productivity Growth. We've had a tale of two economies in Britain. We have had an economy in which services output and activity has been growing very fast over the last four years, whereas manufacturing output has been fairly flat. It has had its ups and downs over those years, but it has been fairly flat. This has an important effect on regional distribution within Britain because manufacturing on average takes place in northern Britain and services is more a southern phenomenon. That's a caricature, but nevertheless it's true. This has meant that the prosperity of the southern part of the United Kingdom has moved forward much more rapidly than in the north.

Manufacturing has done relatively less well, but I think there is a different significance that one should also draw from our performance in manufacturing, which is related to the level of the pound sterling. As we know, the pound

sterling has been very strong in recent years, after having collapsed when Britain left the ERM in the early 1990s. In the late 1990s it climbed very high on a trade-weighted basis. From the beginning of 1997 it climbed to its peak—almost 15 percent. (It has since fallen; it is approaching again its level of 1990.) During that period manufacturing was put under a great deal of pressure. The manufacturing industry in particular complained about the high level of the pound, most vociferously about the value of the pound against the euro, which for manufacturers is the area of our major trading partners. The significant point is that manufacturing was actually fairly steady during this period. In the 1980s, certainly in the 1970s, if we had that sort of pressure from a strong pound sterling, manufacturing would have suffered much more. Manufacturing did feel a lot of pain and pressure from the high level of the pound, but more significant is how well it has resisted the high level of the pound. In recent months, manufacturing exports have in fact been one of the stronger parts of the economy.

Why has manufacturing resisted? Because Britain's productivity performance has improved somewhat. A key question for Britain and for Europe was why the "new economy" productivity growth that we were seeing in the United States had not crossed the Atlantic. One popular and easy explanation for Europe was its inflexible labor markets. But Britain has a flexible labor market. We have seen some rise in productivity in Britain at the end of the 1990s, perhaps because of the implementation of more information technology. But this is still not new economy levels. Productivity growth helps explain why manufacturing has done reasonably well under a strong pound, but this is also the major area where there is a lot of room for improvement. Our productivity growth has not been strong. There are two possible and popular explanations. One is that the skill level of British workers, because of the legacy of the past, has remained poor. The other is what the traditional economists claim,

Key Issues for Corporate Leaders

I'd like to talk a little about the key issues that face our clients. We at WPP are ultimately a reflection of our clients, which happen to be the world's leading companies. What are the key issues that the chairmen and CEOs of those companies have to deal with in this day and age? I'll take our three largest clients to give you an idea of who we are talking about: Ford Motor Company is the largest, Unilever second, and IBM third. Typically we are working with companies of that size and stature throughout the world.

Six Stimuli and Two Responses to Maintain Growth

Corporate leaders are currently facing six stimuli that have created two responses. The six stimuli are things with which you are well-acquainted:

- *Low population growth* around the world is not the sort of condition that we experienced twenty or thirty years ago. The last thing I would ever have expected to see in Latin America is a government campaign, which I did see last year, to stimulate the birth rate.
- Second is *stable growth and low inflation*. Low inflation over the last ten years has denuded our clients of pricing power, whereas in the '80s and certainly towards the beginning of the '90s they had an inflationary environment in which they could pass on price increases to consumers and employees who had growing money wages.
- Third, we have *improving communications and free trade*. Free trade and the development of free-trade areas have been the single biggest growth factor in our business.
- The *transfer of technology* means that it is virtually impossible nowadays to maintain a

significant tangible product or service difference for any significant period of time. My favorite example is the car industry. A few years ago it took five years to introduce a new car. Today, it basically takes about eighteen months, largely as a result of Japanese influence in the automobile industry.

- Another factor has been *growing retail power*. Wal-Mart's incursion into the UK, its incursion into Germany, or its suggested incursion into Japan struck terror not only in the hearts of manufacturers, but also competing retailers. Growing retail power is an increasingly difficult factor for our clients to deal with.
- Sixth is the growth of *new competitive categories*. Taking a couple of examples from the UK, Marks and Spencer has grown out of its traditional product categories into areas such as financial services, and Richard Branson has taken Virgin out of its traditional music business into travel, drinks, and financial services.

These six factors are making life terribly difficult for our clients as a whole.

Most chairmen and CEOs that we deal with promise investors at least 5–10 percent growth in earnings per share, profits, cash flow, or whatever metric they choose. Even relatively low 5–10 percent growth (others promise 10–15 and beyond) is very difficult to sustain in the environment that I am talking about. Essentially, you can only deliver that rate of growth consistently if you do one of two things:

- The first is to *differentiate your products and services in a seriously effective way*.
- The second is to *expand geographically around the world*.

One thing that I would mention is the fact that most U.S.-based multinationals are still very parochially based in the United States. The average U.S. multinational has 70 percent of its business concentrated in the United States and only 30 percent outside. Therefore, a company like Coca-Cola is the exception to

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the rule, with something like 60 percent of its business outside the United States. A company like Pepsi-Cola, its competitor, is probably more the rule, with 65 percent of its business concentrated in the United States.

Four Broad Issues

That leads me to four points I think our clients are concerned about:

The Importance of the U.S. Market. The world has not been globalized. What we're talking about is Americanization, not globalization. Why do I say that? Well, if I take the advertising industry as an example, about 45 percent of worldwide media is bought in the United States. So the biggest concentration of media investment is in that part of the world. The second biggest market is Japan, which accounts for about 11 or 12 percent, and then we have the UK, Germany, France, Italy, and Spain roughly the same at 6–8 percent. So we have this significant concentration in the United States.

It's even more concentrated than one would think. It is a fact of life that, primed by new technologies, something like two-thirds of advertising expenditure is coordinated from the United States. It's even more intense than that, because it is coordinated from the northeast corridor of Detroit, Chicago, New York, and Boston. True, there are major corporations in Seattle, Atlanta, Houston, Dallas, Los Angeles, and San Francisco, but there is a very strong concentration in this northeast corridor of the United States.

You ignore this fact at your peril. In the investment banking industry, for example, in the UK we had a number of very significant brands five or ten or fifteen years ago, such as S.G. Warburg, Flemings, Schroeders, and Morgan Grenfell. They were extremely strong and drew a lot of strong, bright young people to their organizations. Today, those brands have largely disappeared into European organizations or elsewhere. Why have they disappeared? Because the managements of those companies failed to understand the impor-

tance of the U.S. market. If you don't have a strong position in the U.S. market, you really don't have the basis for building global brands of any significance. That U.S. engine is tremendously important.

Why? The size of the U.S. market is important, but U.S. capital markets are also very important. Their size and liquidity and the fact that valuations in the United States are stronger than elsewhere means that marginal costs of capital, both debt and equity, are lower. Therefore, companies have more flexibility and mobility in terms of merger-and-acquisition activity and making investments.

The American lead in e-business is very important, too. I know it's slightly unfashionable now, as opposed to six months or twelve months ago, to talk about the "new economy." But we have to disassociate the financial bubble from the fundamental change to the way we live our commercial lives (and, indeed, our ordinary lives) that has occurred. The American lead in e-business is critically important, not just in the "B-to-C" or "B-to-B" areas, but the growing influence that the United States will exert, for example, in wireless technology, although it is true that the Japanese and the Europeans have the lead in wireless technology at the moment.

Over-Capacity, Intangible Differentiation, Shortage of Human Capital. Over-capacity is an even more critical concern. We operate for our clients in most industries and services, and I'm hard-pressed to find any example where there is significant productive under-capacity. What we face is significant over-capacity. Let me give you an example from the car and truck industry. The total productive capacity of that industry is something like 80 million units a year. Consumers can only buy 55–60 million units a year. Clearly, over-capacity is what is driving the consolidation activity you see with Renault and Nissan, GM and Fiat, Ford and Volvo, and Ford, Land Rover, and Jaguar.

Why is this issue important? You can differentiate yourself in this situation by either tan-

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gible or intangible differentiation. Because product life-cycles are getting shorter and brand-cycles are getting longer, technological differences are very hard to maintain over significant periods of time. Intangible differentiation is therefore critically important. This is very difficult for some of us to get our minds around. People are generally very uncomfortable with differentiating things for psychological, emotional, or lifestyle reasons. But clearly, the suit one wears, the dress one wears, the car one drives, the holidays one takes, the hotels where one stays say something about a person and how he or she feels about the products and services he or she consumes, and his or her lifestyle. Whether one feels comfortable about it or not, these emotional and psychological differentiations are becoming more and more important.

There is an interesting paradox. In the nineteenth and twentieth centuries, productive capacity was a significant issue. This is no longer the case. We now have the real shortage, an under-capacity, in human capital. The critical factor that will differentiate corporations in the next century will be their ability to recruit, harness, retain, and develop human capital. The demographic trends that we face—the aging of the population, the decline in the birthrate, increased divorce rates, smaller family size, fewer people getting married—mean that there is a constriction in the supply of young people. Those of you who recruit at the leading universities or the leading business schools know that the competition is becoming more and more intense. So the critical issue is going to be the shortage of human capital and the ability to deal with it.

The “New Economy.” I mentioned before that the compression in values on the stock exchange of the new economy companies shouldn’t lead us to underestimate the significance of the shifts that have taken place in the last two to five years in the new media and new technology areas. These shifts represent the transfer of power from producers to con-

sumers. It is really the consumers that have benefited from the increased price competition in the economy. As a result, there has been a shift in wealth and a shift in margin from producers, manufacturers, and, indeed, some service companies to the consumer. This is a shift in wealth that will be very difficult to reverse.

One of the incredible things to observers of the new technology scene is that the people who produced and developed these services have not charged for them. In the very early days of the internet, very few suppliers of the services ever charged consumers a premium of any sort for delivery of the products and services they were offering. The result is some of the carnage that we are seeing in the stock markets now.

There are three things that have happened in this revolution. The first is that businesses have been significantly disintermediated by these new technologies. For example, in the market research business (about a sixth of our total business), the traditional ways of capturing and developing data are through mail and telephone. A lot of CEOs get very frustrated by the slowness of response with market research. It takes a long time to put the questionnaire together; it takes a long time for consumers to respond; it takes a long time to analyze the data dump that is deposited at their door after the research has been done. Isn’t there a quicker and more effective way to do it? And the answer is yes, through the internet. We have built a major panel, for example, in the United States of over 500,000 consumers who can almost instantly deliver opinions on issues, products, and services. Thus, new technologies threaten to disintermediate our traditional business, which is based on mail and telephone.

The second thing that the new economy has done is introduce competitors that are subject to totally different parameters in terms of evaluation by investment institutions. Although valuations and attitudes have changed significantly over the last year, new

businesses are subject to lower investment parameters. As a result, the lower-cost business models they can employ have made them more effective competitors.

Finally, these new businesses have stolen talent very effectively, certainly in the initial stages of their formation. This has been reversed to some extent in the last few months, but the critical point is that young people do not wish to serve apprenticeships in large corporations. Do not underestimate the impact that the new economy has had on the attitudes of young people to working in large bureaucracies and in large companies over time. There is this desire to start a business and to work inside corporations that are leaner, meaner, and less bureaucratic.

Internal Communications. A critical issue that we see increasingly inside large corporations is the desire to communicate internally strategic and structural change. Our three largest clients—Ford, Unilever, and IBM—are involved in extensive efforts to communicate internally, to employees and internal communities, the effectiveness of their strategies and their structures. Having said that, most of that communication is aimed at internal audiences with the objective of expanding that view externally through a motivated, incentivized, and directed work force. In other words, employees are effective communicators to outside audiences, such as customers, clients, suppliers, potential employees, investment institutions, the trade press, and beyond.

Sir Martin Sorrell is Chief Executive Officer of London-based WPP.

ROBERT MAY

Science and Technology in Britain and Other OECD Countries

I am going to talk first about why governments in general and the United Kingdom in particular spend money on research and development, and particularly on basic science.* How much money do governments spend and what can they expect to get for it? What are the measures of output? What are the comparisons in value for money among countries? Then I'm going to turn, secondly, to some of the opportunities and, at the same time, the challenges and the worries that open increasingly as we open more doors that lead down previously unexplored passages. In the third part, I am going to speak about the implications of these opportunities and challenges for the dialogue that we must learn to conduct better between science and society.

Spending, Output, Value for Money

Why do governments spend money on research and development? Why do they spend money on the unforeseeable, unownable, blue sky process of basic research? The reason, in Tony Blair's words, is "because the science base is the absolute bedrock of economic performance." In some larger sense, most of what you are going to talk about during this meeting is an epiphenomenon of the existential advance of science.

The science base creates new knowledge. More importantly, governments spend on it because it buys a ticket into the club that pro-

*This text was produced from a transcript of my recorded presentation by the editors, to whom I am very grateful.

DO NOT UNDERESTIMATE THE IMPACT THAT THE NEW ECONOMY HAS HAD ON THE ATTITUDES OF YOUNG PEOPLE TO WORKING IN LARGE BUREAUCRACIES AND IN LARGE COMPANIES OVER TIME.

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vides access to the new knowledge created in other countries, which will always be larger than that created in one's own, even in the United States. Even more importantly, it creates successive cadres of appropriately trained people, some of whom will cycle back into the process of basic science and more of whom will spin out into the civil service, business and industry, and the City, bringing that analytical, rational approach to the world with them. The paradox at the heart of government-supported science is that most of the people doing the basic research aren't doing it for socially motivated reasons, even though that's why they are being funded. They are doing it for reasons of pure hedonism and the pursuit of pleasure. They certainly are not doing it for the money.

How much should governments spend on basic research? The kind of figures with which most of you will be familiar are total expenditures on research and development by the public and the private sectors. In the OECD countries, these figures typically range around 1–3 percent of GDP annually. Only a few countries, such as Switzerland and Sweden, spend 3 percent of GDP. Countries like the United States, France, and Germany are in the range of 2–2.5 percent of GDP and Britain is a little low at about 2 percent of GDP. Smaller countries tend to spend less. And the ratio of public to private money tends to vary. Within the scientifically developed countries, essentially the OECD countries, expenditures on the science base itself typically runs around 0.6–1 percent of GDP—from a high of around 1 percent in Japan, Switzerland, and Sweden, to a low of around .6 percent of GDP in the United States and the United Kingdom. That's the input side. It's the sort of thing with which my colleagues in universities are obsessed.

Equally important is what you get for your money. What are the measures of output? Well, ultimately, they're the way you harvest the new knowledge. To directly measure output of new knowledge itself, one might calculate the number of papers published (roughly a million a

year in science, medicine, and engineering); or the references to those papers within that literature (roughly ten million a year); or the papers cited as inspirations in patents; or prizes. If you just add up the total volume of papers in any one year, roughly about a third are published in the United States, about a third within the European Union, and about a third in other parts of the world.

But total volume is a funny measure. It is a mixture of quality and size of units. Looking at the 2000 Summer Olympics, one might think the United States was the best performer because it won more medals. But if you re-scale output to population size, Australia was far and away the dominant country and the United States was not in the top twenty. Similarly, if you re-scale scientific research to population size, you get an interesting measure. Counting papers or citations in relation to GDP per capita, the top performers are Switzerland, Israel, and Sweden; Scotland would be third if it wasn't dragged back by being lumped together with England. The United Kingdom, shading the United States, both just scrape into the top ten. Germany, France, and Japan—other powerhouses that do some superb science—all just scrape into the top twenty.

Particularly interesting is a value for money measure, if you think of this as a kind of enterprise (although that's not how most practitioners think of it; it's a very existential creative enterprise). In terms of output in papers or citations last year in relation to the money spent three or four years earlier, or papers cited as inspiration for patents in relation to earlier expenditure, the United Kingdom has been top of that league for the past decade. This performance is partly because the United Kingdom is very strong in output (though not the strongest) and partly because it is near the bottom of the league in input. But there is a cluster at the top of the value-for-money measure that includes the Anglo and Scandinavian countries, Switzerland, and Israel. Value-for-money measures for Germany and France are about half that of the average Anglo or

Scandinavian country. And for Japan it is one-fifth. That's a dodgy statistic, but it's worth reflecting on.

My personal view is that it's not fashionable to ask questions. What was so special about Pericles' Athens or Shakespeare's London? What are the things that are the sparks of this oxymoronic concept of managing creativity? One characteristic of the best performers in terms of value for money in science is that their science is done around universities or other places infested with the irreverent young, free of hierarchies, of dominance, of deference. In other words, you make sure young people are free to express themselves from the earliest age. A second characteristic is that money is given out in an appropriately competitive way. Although superb science is done in Japan, it performs poorly on a value-for-money basis. The money given to universities, which is a lot of the money expended on science, is given out on an uncompetitive per capita basis.

Overriding all of it, of course, is how to instill in people from the earliest age an interest in science, medicine, or engineering and, particularly in increasingly knowledge-driven economies, how to make sure that appropriate cadres of people are trained very broadly in the social sciences, life sciences, physical sciences, engineering, and medicine. There are interesting statistics here. One of the biggest revolutions that has happened in the United Kingdom in the last twenty-five years is one on which very few people in the United Kingdom ever reflect. Twenty-five years ago, just under 7 percent of twenty-four year-olds in Britain had university degrees, counting the polytechnics as universities. Today, more than 35 percent have university degrees. It is a five-fold expansion in twenty-five years. In fact, we have just moved ahead of the United States in having a higher proportion of twenty-five year-olds with university degrees—just over 35 percent versus just under 34 percent. The only OECD country with a similar expansion is Spain, which has gone from about 4 to about

20 percent. Not even South Korea has had such an expansion as the United Kingdom. This expansion has created all manner of interesting problems for how you fund, manage, and appropriately diversify that expanding enterprise. We are still wrestling with it and too many of us are wrestling with it without even noticing that we're doing it.

Great Opportunities, Deep Challenges

Out of all the excellence in science in so many countries are coming all manner of new discoveries. We have learned more about the external world in the last fifty years than in all of previous human history. But what's going to happen in the next fifty years is going to make that look mild. These days we particularly think about the human genome and other genomes that are going to open possibilities within the next twenty years that will transform healthcare literally beyond imagining. But much more than that, our understanding of other genomes opens the doors, appropriately used, to developing crops much faster than the hit-and-miss methods of breeding that have served us for the last 10,000 years. If we use that knowledge wisely, it will give us more environmentally friendly crops growing with the grain of nature rather than against the grain of nature. It will give us new methods of clean-up; it will give us new materials.

At the same time, these opportunities will bring with them challenges. They will bring with them worries about ethics and safety. In the longer term they have deep philosophical implications. As an evolutionary ecological biologist, to me one of the most amazing things about our extraordinarily accelerating knowledge of our own and other "books of life" is the degree to which we share genes with plants and animals. For example, more than half the banana genome is shared with humans (a fact more evident among some of my acquaintances than others). We have yet to come to terms with the deeper implications of these discoveries, both practical and ethical.

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A More Open Dialogue between Science and Society

The dilemma at the heart of democracy is conducting a dialogue between those who must make decisions and the public, or the many publics in their many forms. Too often the dialogues are conducted in fora like this, as if you were representative of the public, or as if the social scientists that turn up at the Science and Society discussions are representative of the public. They are not representative of the person on the street. And yet that dialogue is one we have to learn to conduct in a world that gets smaller and where the dialogue increasingly is going to be about how we make use of the potential opened by scientific advance, especially when that potential is based on deeply complex science.

There are three common misconceptions that I wish to blast open and dismiss before turning to what I think in principle is the answer to this dilemma. One misconception is that people these days distrust science more, that they are more worried about science than they used to be. This is nonsense. People's distrust of the new a few centuries ago was expressed in more draconian terms, at worst, by burning the harbinger of the new, as with Bruno or, at best, as with Galileo, confining him to house arrest and forcing him to recant. There were riots in the streets in Britain over smallpox vaccination two hundred years ago. This was all conducted in a contemporary idiom of Dr. Frankenstein's, although *Frankenstein* hadn't been written yet.

There is enthusiasm for science, but worry about its outcome. Eighty-four percent of people in Britain surveyed in an in-depth poll conducted by MORI said science makes life better. Three quarters of the people said it is the aim of scientists and engineers to make life better. They even said a life as a scientist or engineer must be wonderful (which suggests they didn't capture too many of my academic colleagues in the sample). But the same people, more than half of them, said the pace of modern advance is too fast for effective

government regulation and oversight.

The second misconception is that arguments in favor of genetically-modified foods or stem cell cloning would be much better received if the populace was better educated in science. Not true. Surveys that ask people not just trivia questions about science of the kind you see on *Who Wants To Be a Millionaire?*, but deeper questions such as, What's the nature of the experimental method? What do you mean by a "control group"? What do you mean by a "confidence interval"?, show a big gradient in Europe. At the top, in the seventieth percentile, is Denmark, followed by the United Kingdom. At the bottom are some of the Mediterranean countries, in the thirtieth percentile. When asked, "Do you see science as making life better?" all countries, on average, say yes. But the less the people know about science the more unequivocally enthusiastically they say, "Yes, it's good." And that's how it ought to be.

(It's also interesting that the very countries that are most skeptical of the euro—Denmark and Britain—are also the top scorers in scientifically-educated citizenry. And the countries ahead of them—Switzerland and Norway—are not EU members. Switzerland just had a referendum again asserting they do not want to join.)

The third misconception is that many of the attitudes and debates about genetically-modified foods and the like are debates about the conservative Old World versus the enthusiastically new-embracing New World. One would have to have a short memory to believe that. When the gene-splicing techniques that are delivering products now first appeared in the '70s, the discussion left an agonized aftermath on the east and west coasts of the United States. Paul Volcker, as a trustee of Princeton, will remember as I do the delay of over a year in Princeton's Molecular Biology building as we debated the conjectured worries. Wally Gilbert of Harvard University had to cross the Atlantic to do the work he couldn't do in Cambridge, Massachusetts. In Europe, there

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that legitimacy? Where is the legitimacy of NGOs? They tend to be private; they tend to be undemocratic; they tend to be unaccountable. I am against reducing democracy to majoritarianism, but don't NGOs tend to reduce democracy too often too minoritarianism? How can they too achieve greater legitimacy? These are the very questions that have been posed to us by Joseph Nye. I look forward to hearing your conclusions because the European Union is also grappling with exactly these issues.

One of the questions that Joseph Nye asks is whether the European Parliament offers a useful paradigm for other international institutions as a way of overcoming what has been called the "democratic deficit." Sadly, my own conclusion is that it doesn't, at least in its present form. The European Parliament is engaged in highly technical legislation and it does that work with increasing professionalism, but in the absence of a single *demos* in Europe—a population that feels itself to be one—the European Parliament has difficulty establishing itself as a wholly credible and sufficient democratic sounding board for political action at the European level. My own hunch is that building up the role of the European Parliament, however worthwhile in its own right, is unlikely to resolve the legitimacy problem. Rather, we need to find better ways of connecting the European supranational institutions to the real bedrock of democratic legitimacy in Europe—the national parliaments and indeed sub-national ones, such as in the German *Länder*. These assemblies need to take more responsibility for European decisions taken by Ministers in the Council instead of sniping from the sidelines, portraying Brussels as some Frankenstein monster beyond their control, blundering around with a bolt through its neck trampling down the ancient democratic rights of the citizenry.

American Unilateralism and the Legitimacy of U.S. Leadership

This brings me to the second point I want to raise. If we have such difficulty democratizing the organizations that administer and implement the pooling of sovereignty, is the answer to draw back, refusing to submit domestic policies to international agreements or to the arbitration of supranational institutions? This is perhaps the main challenge on the international stage facing the United States in the next few years and therefore the main challenge for all of us in dealing with Washington. It concerns the role the United States sees for itself in the world system, in working with and through global and regional institutions. There is clearly a strong political argument to define America's first duty as looking after its own people and limiting its responsibility to that function. In the words of a newly appointed member of the new administration, "This question of the threats to America's untrammelled sovereignty posed by global governance is *the* decisive issue [his emphasis] facing the United States internationally."

I understand the case that is being put forward and maybe I wouldn't worry so much if it was put forward by a politician in my own country, even if I didn't agree with it. But it worries me because the United States is not a typical country. As the overwhelmingly pre-eminent world power, the United States can admittedly afford to stand aloof from international undertakings, to resist the Lilliputian efforts of the international community to restrict Gulliver's freedom of movement, to exercise its power unencumbered by institutional entanglements. Not only can the United States afford to stand aloof, but there is a pervasive, perhaps dominant, school of thought that argues that it should. Unilateralism in this view is not just a reflection of U.S. power, but a positive virtue: America's hegemony is benevolent and such is the primacy of American values and institutions that it is no bad thing that others must adapt themselves to U.S. preferences. Forgive us, please, if in

Europe and perhaps in East Asia, too, we shift a little uneasily in our seats.

This is my greatest concern about missile defense. I hope that missile defense does not destabilize relations with Russia and China. I am sure that it won't produce a major transatlantic bust up. We can arrive at a sensible accommodation on this question, especially if we in Europe don't give the impression that we can only feel secure if America feels insecure. My main worry is that this strategy is symptomatic of a tendency in the United States to believe that it is an island secure unto itself, fenced off from the world by advanced technological barriers, inviolate and invincible. Why does this worry me above all? Because it relates to the question of the democratic underpinnings of the international system: U.S. unilateralism would erode the legitimacy of America's global leadership.

I have another equally strong concern. The world as I said earlier is struggling to deal with the dark side of globalization—drug trafficking, now a bigger export than iron and steel or cars; environmental degradation; and its implications for poverty and security; illegal migration; and the failure of international trade to bridge the divide between the billions who benefit and those who are marooned in squalor and in misery. These are not issues that can be ignored or left to resolve themselves. Increasingly, they force themselves onto the agenda at international meetings. Individual countries, even countries as large as the United States, cannot tackle such problems on their own, nor can they always be addressed by the traditional mechanisms of classic international cooperation. The European Union finds itself, perhaps by accident as much as by design, with the authority and legal competencies to tackle some of these cross-cutting issues in its inevitably inadequate way. Fifteen member states, soon to be twenty-five or more, share their powers in areas that touch on the tangled network of global problems, from blood diamonds and drug trafficking to climate change and its impact on security. These are the problems of conflict pre-

vention that crowd in on us, problems that we don't believe can be resolved by a technical fix. Our own institutional development and experience in Europe disposes us even more to commit ourselves to multilateralism.

My concern then is that the United States, whose instinct for multilateral commitment—look at NATO and the United Nations—shaped the world in the second half of the last century, whose values are the same as my values, who has done so much good in the world, may be tempted to pull back, to insist on unrestrained independence of action, to insist, for example, that its domestic energy or environment policy is its own business and that the world should keep its nose out.

I understand why there might be a waning commitment in America to international engagement. It is, after all, the duty of every government to look after the national interest. But America's national interest is in the strengthening of those institutions that provide a structure for the civilized resolution of global disputes. If such problems can't be resolved they will quickly become serious threats to security. I have little doubt that the new administration, like most of its recent predecessors, will ignore the voices from the think tanks and from Capitol Hill and will recognize its interest as well as its responsibility to engage. But it will come under pressure to take another route. It's in all our interests that it does not do so.

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...U.S. UNILATERALISM WOULD ERODE THE LEGITIMACY OF AMERICA'S GLOBAL LEADERSHIP.

states supported, protected, bankrolled, and sustained in power undemocratic and corrupt leaders. The United States, European countries, and the Soviet Union have all been involved. The result has been weak states, poor economic growth, and a shortage of human and financial resources to rectify the damage that was done.

Why then do I speak of hope? I am sure you will understand if I start with my own country—South Africa. The remarkable democratic transformation of post-apartheid South Africa continues under conditions of stability. As Speaker of the National Assembly, I am privileged to have a front row seat and the best vantage point for observing this democracy at work! I am particularly proud to preside over an assembly that is among the most representative in the world—with women, a full range of racial and cultural diversity, and representatives of disabled people who require the use of Braille and sign language interpretation as the norm. Few parliaments could claim such representativeness. Three of the four presiding officers of parliament are women, as are 38 percent of the executive—a record very few long-standing democracies could match. It is easy to forget how close we came to disaster just one short decade ago in South Africa and yet, if one reflects on the tremendous progress that we have made, it becomes clear that South Africa will continue to be a force for peace, stability, and development in the region.

Of course, South Africa is not the only country in sub-Saharan Africa where democracy is flourishing. Nigeria, for example, which is the most populous country in Africa, is firmly on the path to realizing its own goal of consolidating democracy. There are other countries where democratic systems are doing well in sub-Saharan Africa and, not surprisingly, that are flourishing economically as well. Indeed, Africa has a new generation of leaders who recognize both the colonial legacy and the failings of many African governments and accept responsibility for the current poverty and lack of development.

There are a large and increasing number of

governments deriving their legitimacy from democratic elections and sustaining the democratic process. At the same time, the OAU has refused to accept leaders acquiring power through military coups. The new Treaty Constituting the African Union also provides for African intervention to support democratic governance. Civil society has burgeoned, often forcing democratic change and engaging governments and parliaments to ensure appropriate development policies are pursued. Prominent among these are a women's movement, youth groups, professional organizations, and business.

Developing the Millennium Africa Programme

Many countries, but not enough, have maintained growth rates of over 5 percent per year over the past decade. Regional economic organizations are being established and strengthened. To take this process further, the Presidents of Nigeria, Algeria, and South Africa are developing a Millennium Africa Programme (MAP). It has not yet been finalized, but participation will be open to all African countries prepared to make a commitment to the guiding principles. Some of you at Davos last month heard President Mbeki present a brief overview.

The programme is a declaration of a firm commitment by African leaders to take ownership and responsibility for the sustainable economic development of the continent and to set out our own agenda. Our starting point is a critical examination of Africa's post-independence experience and acceptance that things have to be done differently to achieve meaningful socioeconomic progress, without which it will not be easy to achieve our historic task of improving the lives of our people. The outlines of a concrete multi-faceted programme of action have been developed. Priority areas include:

- Creating peace, security and stability, and democratic governance, without which it would be impossible to engage in meaningful economic activity;

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- investing in Africa's people through a comprehensive human resource strategy;
- harnessing and developing Africa's strategic and comparative advantages, i.e. in the resource-based sectors to lead the development of an industrial strategy;
- increasing investments in the information and communication technology sector, without which we would not be able to bridge the digital divide;
- developing infrastructure, including transport and energy; and
- developing financing mechanisms.

The objectives we want to achieve through the implementation of the programme include the acceleration of efforts to eradicate poverty on the continent and to significantly increase new investments by mobilizing both domestic and, especially, foreign savings. The focus is not on simply increasing aid, but increasing investments in viable infrastructure and business opportunities. Targeted aid and technical support to address capacity constraints and urgent human development priorities would be required.

The programme is based on recognition of global interdependence in respect of production and demand, an environmental base that sustains the planet, cross-border migration, a global financial architecture that rewards good socioeconomic management, and global governance that recognizes partnership of all peoples. The programme addresses the need for a global community in order to ensure that globalization is sustainable and will benefit both developed and developing countries.

The global technological revolution needs an expanding base of resources, a widening sphere of markets, new frontiers of scientific endeavor, the collective capacity of human wisdom, and a well-managed ecological system. Much of Africa's mineral and other material resources are critical inputs into production processes in developed countries. Africa provides a great opportunity for investment, including opportunities for joint international

efforts in the development of infrastructure, especially in information and communication technologies and transport.

It also provides prospects for creative partnerships between the public and private sectors in the processing of primary products and natural resources, agro-industries, tourism, human resource development, and in tackling the challenges of urban renewal and rural development. One needs to emphasize that a developing Africa, with increased numbers of employed and skilled workers and a burgeoning middle class, would constitute an expanding market for world manufactures, intermediate goods, and services.

Furthermore, Africa's biodiversity—its rich flora and fauna and rain forests—is an important global resource in combating environmental degradation posed by the depletion of the ozone layer and climate change, as well as the pollution of air and water by industrial emissions and toxic effluents.

The expansion of educational and other opportunities in Africa would enhance the continent's contribution to world science, technology, and culture to the benefit of all humankind.

As we have noted at this meeting, there is a backlash against globalization and fears among large sections of the population. This can be mitigated by actions and cooperation among the developed countries. A key priority is the reform of international financial and trading institutions to take on board the concerns of the countries of the South. For example, with regards to the WTO there is a need to re-examine the rules governing intellectual property rights, dumping and countervailing measures, subsidies, etc. The agreements governing market access may need to be renegotiated so as to benefit both developing countries and developed. (Perhaps they need to favor developing countries!) The structures of governance require reform to give greater weight to the concerns of the countries of the South. This would lay a foundation to address the profound imbalances in the structure of the global economy.

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Telegraph this morning talked about a “cacophony.” That is an exaggeration. There are different world-views within the top leadership, but I think already it is quite clear that the decision-maker is the president. While he listens to his “board of directors,” if you will, very carefully, he makes the decisions.

There is a significant difference in style between the Clinton Administration and this administration. I think you will find a more consistent pursuit of issues in this administration than was the tradition in the Clinton Administration. It is not clear what all of the administration’s positions will be, but I think they will be pursued with consistency and with a greater attention to the views of friends and allies. There will be more of a propensity to consult, and hopefully before rather than after a decision has been made.

On the only foreign policy issue in the presidential campaign, the issue of intervention, I think you will find the Bush Administration much less willing to intervene on other than clear security grounds, much less willing to intervene on behalf of values, human rights, and so on. I think that the view of the new administration about U.S. leadership in general is not that we make decisions and others follow, but that we are more the nucleus around which coalitions can form to take joint action. I believe the model of the Gulf War will be an example that the new administration will try to follow. The administration may say, let’s do something, but then they will try to get others to join them.

There is greater concern in this administration about China, Russia, and North Korea than there was in the Clinton Administration after the first year.

There Will Be a Missile Defense System, but What Kind, When, and How?

After that cursory introduction, I want to start with missile defense, because that is one of the big psychological problems as I see it and, I think, as the administration sees it. How did we in the United States get where we are on

missile defense? The Republican Congress pressed hard for a crash program to fulfill the Reagan legacy. The Clinton Administration started out wanting no part of a national missile defense system. The program they inherited (GPAL, Global Protection Against Launch) under which we had started discussions with both Europe and Russia was stopped because it was a part of missile defense that the Clinton Administration didn’t want to pursue. Pressures from the Congress, accelerated after the North Koreans tested a long-range missile, gradually led the administration to support it. The program they pursued was based on the principle of least disruption to the ABM Treaty. Congressional pressure, and the way the Clinton Administration reacted, resulted in a system that relatively few liked, whether you’re an opponent of an ABM system or a supporter of it. Another factor is that the time in which North Korea might have a missile able to hit the United States (as projected by a commission headed by now Secretary of Defense Rumsfeld) has been stretched out at least by a couple of years because the North Koreans have not tested any missiles since then. That’s where we are now.

There will be a missile defense system. There is no question about that. The administration is fixed on it. But what kind and when and how is much more up in the air now than it was even a year ago. There is now a chance and probably even a likelihood of a review of where we are. I think it will include consultations with Europe, Russia, and perhaps with China. It may include a look at alternative approaches to the subject, for example, an early intercept system. (The advantages of a boost-phase intercept are not only technical; that kind of intercept is less threatening to people whom you don’t wish to threaten.) Or it may include an approach to national missile defense through theater missile defense, which perhaps would be much easier for all concerned to swallow, except the Chinese. The basic purpose for any missile defense is to pre-

tive. At a time when I don't think anybody can expect large increases in European defense expenditures, that duplication would constitute a problem, for the Americans see a more critical need for Europe to be able to fight alongside the United States in a technical sense. The United States and the EU need to explore new strategic ways of cooperating and relating to each other more than we have so far.

The United States Security Role in Asia

Asia is a dynamic, rapidly changing region. The new administration probably has fewer people familiar with Asia than they do with Europe. The United States has operated on the basis—which I think is true—that in Asia, there is no internal balance absent a U.S. presence. The U.S. presence provides key elements of Japanese security that the Japanese do not have to provide for themselves; it provides China with some sense of reassurance with respect to Japan; and it provides the rest of the states of the region the freedom of maneuver to avoid being forced into polarizing relationships. The key question is, Can we, in fact, keep our forces in Asia?

Korea. The new administration is much more skeptical about Kim Jong Il than was the Clinton Administration. There are many in the Republican party who feel that the 1994 Agreed Framework was a mistake. Indeed, a proposal has been introduced in Congress that the United States withdraw from providing nuclear power plants to North Korea and substitute conventional power plants. I think that would be a serious policy mistake at this point. While the North Koreans have not proceeded either to build their proscribed nuclear plants or test the Taepodong missile in the last couple of years, the feeling within the administration is that the relationship has been mostly give by the United States and rhetoric by North Korea. There are dangers that we could separate ourselves from South Korea and Kim Dae Jung's "sunshine policy" to an extent that would be imprudent. The presi-

dent distinguished himself from Secretary of State Powell a bit on this issue by saying there would not be any immediate negotiations on missiles with North Korea. I believe there will eventually be negotiations, but the administration will be much more skeptical and there will be efforts to ensure that North Korea is prepared to carry out its end of the bargain. So far North Korea has used an element of blackmail. They have stopped doing things that they otherwise would have done. But every time the United States objects to something, they say they may have to go back to building their own nuclear plants or testing their missiles. This is an issue where the administration still has to get its act together.

Taiwan. Taiwan is an issue where a consensus within the administration may not come easily. There are many Republicans who are suspicious of China and supportive of Taiwan to the point of independence. Here I'll give a personal note. I think we need to tell both sides, "Don't rock the boat." The United States should tell the Chinese that an unprovoked attack on Taiwan would bring our support to Taiwan; and we should tell the Taiwanese that, while they are free to make their own policy, if they provoke a Chinese attack by, for example, declaring independence, they're on their own. This is an extremely sensitive issue, but there are some signs for hope. The new Taiwan president, who is from the independence party (DPP), has been generally very careful not to provoke the Chinese. Indeed, he has stated that there will be no independence declaration unless the Chinese attack. The Chinese started out very hostile toward the new Taiwan Administration saying that "a tiger can't change its stripes"; but they've since calmed down a lot. Vice Premier Qian Qichen recently gave a reformulation of One China: There is one China, and Taiwan and Beijing are both parts of the one China. This formulation provides considerable flexibility.

There are many other challenges: the Chinese missile build-up opposite Taiwan and

THE UNITED STATES HAS OPERATED ON THE BASIS...THAT IN ASIA, THERE IS NO INTERNAL BALANCE ABSENT A U.S. PRESENCE.

the pressures it brings to deploy a theater missile defense; the delay in China's accession to the WTO, probably requiring another vote in Congress to extend normal trade relations for another year; and most importantly, the arms sales agreement with Taiwan this year. What happens this year on Taiwan could strongly impact elections in Taiwan in December and the Chinese leadership changes scheduled for next year.

Lt. Gen. Brent Scowcroft, USAF (ret.), is President of the Forum for International Policy and former Assistant to the President for National Security Affairs.

CARLA HILLS

The New Administration and U.S. International Economic Policy

We have a Republican president facing a razor-thin majority in the House of Representatives and a dead tie in the Senate. And the question put to me is, How will this new political lineup serve in setting U.S. policy in the international economic and trade arena? Our friends across the Atlantic—but certainly across the Pacific as well—worry that the new administration could become more unilateral and less engaged in matters of the global economy. I have a bias, but I do see it differently. I will say just a word about the style of the new administration, what their likely thinking is about economic and trade policy, and some of the challenges that I see for our Trilateral partnership.

Quieter Style Does Not Signal an Inclination to Disengage

Having been in the Ford Administration and the previous Bush Administration, I do know the people who have been appointed to the economic team very well. This team is experienced, business-like, and very decisive. In terms of style I agree with Brent Scowcroft. It is very different. From day one it has demonstrated a sharp focus. In the first seven weeks there has been a disciplined presentation of the president's agenda, starting with his tax-cut program, his education program, defense initiatives, and an effort to get acquainted with foreign leaders with whom the United States will have to interact, especially our two closest neighbors, Canada and Mexico.

During the campaign the President said he thought that the United States ought to be more humble in dealing with its trading partners and with other nations. I think that theme has been well-reiterated by his economic team. For example, Paul O'Neill, Secretary of the Treasury, said in an interview last month just before he went to the G-7 meeting that he would not publicly press the Japanese, as did his predecessors, on deregulation and restructuring issues. He would prefer to use his contacts in the corporate world to convey any message that he wants to convey. But don't be fooled. This quieter style does not signal a decreased commitment to working with our trading partners or an inclination to disengage from the global economy. Rather, it reflects a judgment of the best means that the United States has at its disposal to work with other nations. Last month in speaking to our troops stationed in Norfolk, Virginia, President Bush said, "To succeed, America knows it must work with our allies. We did not prevail in the Cold War only to go our separate ways, pursuing separate plans with separate technologies." And similarly, Secretary O'Neill said unequivocally, "I want to underscore that on economic and financial policy, as in other areas, the United States will remain fully engaged internationally."

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But, of course, you can ask, What does being fully engaged internationally mean in terms of a strong dollar policy, coordinated intervention in the currency markets, or U.S. leadership in the International Monetary Fund? I start with the proposition that this team very strongly believes in the positive power of the market. Last month in press interviews, Secretary O'Neill said that ultimately market fundamentals, not government intervention, determine currency values. That statement was meant to convey that he sees the strong dollar as a consequence of a strong economy, not that he is abandoning the strong dollar policy of his predecessors. He has been very careful not to rule out U.S. participation in coordinated intervention in currency markets or U.S. leadership in the International Monetary Fund if the need arises. Indeed, he said at his confirmation hearing, "Secretary Rubin was right to intervene in the Mexican crisis and had Congress succeeded in preventing him from doing so, the consequences would have been very grave, indeed." Nevertheless, he is of the firm view that there would be fewer crises if, in his words, "investors had the information they need to make a realistic assessment of the risk and a clear understanding that they, not government, are responsible for what happens." To that end he has encouraged the international financial institutions, particularly the Fund, to be more forthcoming in its release of data and he has indicated that he will seek to hold lenders accountable for their decisions.

The Trade Agenda Is Long, Time Is Short

With respect to trade, President Bush is a self-proclaimed free-trader who campaigned on opening global markets and free trade in the Western Hemisphere. The new U.S. Trade Representative, Bob Zoellick, is smart, strategic, and experienced. This is fortunate, for his agenda is packed. In the next few months he must put the United States back into a leadership role on broad initiatives to open up global markets. He must deal creatively with a long list of inherited but complex trade dis-

putes with every single one of our key trading partners. He must secure the approval of completed agreements and complete negotiations in process, including those with Vietnam, Jordan, Singapore, and Chile. He must address a list of issues, from China's entrance into the World Trade Organization to bills that will expire within the next several months, including the Iran-Libya Sanctions Act and the Export Control Act. And, most importantly, he must gain Congressional support for the administration's trade initiatives.

This agenda is long and the time is short. In the next eight months, President Bush will attend three summit meetings in which trade will be key. In April he will join thirty-three other democratically-elected leaders in Canada to discuss the Free-Trade Agreement of the Americas, which has been making no progress of late. In June he will attend the G-7 meeting in Italy, where leaders will consider whether the WTO negotiations that collapsed in Seattle can be resuscitated in time for the next ministerial (to be held in Qatar in November). And in November he will attend the Asia-Pacific Economic Cooperation forum, which brings together the leaders of twenty-one economies that rim the Pacific (including Taiwan), hosted by China in Shanghai this year. Again, trade talks about opening up the markets of those economies will be on the agenda in Shanghai and would certainly be helpful in giving those economies a boost.

The benefits to the global and the U.S. economies of advancing each of these three initiatives are huge. We heard this morning from Fred Bergsten about the obstacles, which are likewise huge. Let me just mention two. First is the sharp slow-down of the U.S. economy and the accompanying plummeting of consumer confidence. That creates a much more challenging environment in which to talk about trade liberalization. Second is the need for our president to secure trade negotiating authority, now called Trade Promotion Authority. For six years, Congress, sharply divided over trade policy, refused to give

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United States, they make it very difficult to persuade our elected representatives that it is critical to negotiate additional WTO agreements when the current ones are not being observed. This situation has led some very bright people in my country and in Europe to suggest that one way to reduce the growing friction would be for the United States and Europe to negotiate a transatlantic free-trade agreement. Let me say that I respectfully dissent. We already have rules in many of the areas of our differences and neither these rules nor the sanctions that have been applied for their breach have succeeded in resolving our disputes. In fact, the process of litigation and subsequent retaliation, actual and threatened, has contributed greatly to the acrimony. Moreover, we must remember that, when the OECD nations negotiated a quite good investment treaty, it was off-putting to the lesser-developed nations, who felt that they had not had a seat at the table. So the prospect of spreading a bilateral agreement between the European Union and the United States to lesser-developed nations is poor.

Our most intractable disputes result from our growing integration—call it globalization, if you will. Increasingly, our international economic activity collides with sensitive domestic regulation. Regulatory policies that govern food safety, or beef and hormones, or genetically modified food, or tax policy, or aircraft noise are much more politically sensitive than tariff measures and far less amenable to rule-setting solutions, at least in the short term. What we need is the highest-level diplomatic effort driven by a mutual desire to find solutions to these disputes, not to win the argument. Both sides need to focus on the outcomes that preserve the relationship and set aside, or at least contain, the relentless quest for advantage. Such an effort will require enormous political will on both sides of the Atlantic. We need to promote a better understanding of the regulatory processes and the political limitations of the other. This is where the Trilateral members can make a difference.

Strong technological forces are pushing our nations toward greater economic integration and the prosperity that such integration can bring. But bad policy choices can stifle the most promising prospects for prosperity. We know that, after World War I, fear of competition caused the United States and Europe to raise trade barriers in response to calls to protect local workers. This heightened protectionism brought to a close the last sustained period of globalization that had run from about 1850 to the First World War. As Norman Cousins once said, “History is a vast early warning system.” Unless we find a way to break the damaging spiral of the transatlantic conflicts, we face repeating a very bleak chapter in our history.

Carla A. Hills is Chairman and Chief Executive Officer of Hills & Associates and former United States Trade Representative.

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Plain, and the air space above them both. The enemy had to come to us on ground of our choosing. This is no longer the case. We must now go to the trouble spot and take on any potential adversary, often on ground of his choosing, not ours. This is more demanding and more complex, and can be every bit as dangerous. We need to be able to influence the outcome through direct action across a broad spectrum of military capabilities to match the broad spectrum of future conflict. Such conflicts have the potential to explode in spectacular fashion, although they may have been judged initially by many to be limited. The potential for escalation is no longer in doubt.

There is proliferation of weapons of mass destruction—nuclear, chemical, and biological. Terrorism can export a limited regional conflict to the international stage; for example, the attack on the U.S.S. Cole, or Islamic extremists operating virtually worldwide. No longer is the battlefield an organized place with front lines and rear areas. It's confused, fluid, and multi-dimensional. Asymmetric warfare may call for a completely new approach from conventional navies, armies, and air forces. Governments will also want their forces to engage in fights against well-armed international criminals and drug cartels. There is also another kind of threat to security, which was manifested by the attack on the Tokyo subway. And don't think anybody should be complacent. I myself am surprised that similar attacks have not happened elsewhere in the world.

The fragmentation and instability in the world has led to a dramatic increase in international involvement in peace-support operations. The first United Nations peacekeeping operation began in 1956, monitoring the withdrawal of French, British, and Israeli forces from Egypt. During the next thirty-four years—up to 1990—there were thirteen more UN support missions. In the ten years since 1990, there have been forty such operations, of which fourteen still exist today. Internationalization of military operations, whether

it be peacekeeping or war-fighting as in the Gulf, is a fundamental part of the geopolitical security environment. Multinational forces are here to stay.

Strengthening and Adapting European Military Capabilities

This leads me neatly into European defense, the debate about which, in this country, has often bordered on the irresponsible and has had little to do with our defense and security. There are clear political dimensions to the debate, but speaking as a military man, NATO remains the most successful and important alliance in history and is crucial to the United Kingdom and to the stability of Western Europe. The key feature of the alliance is the engagement of North America in European security. As Europeans, we have to do more to share the burden with the Americans, because if we don't do more, they will almost certainly do less. I think they are likely to do less anyway. They will, as we heard yesterday, be more cautious; but if Europe doesn't do more, they will do much less.

Today, in European NATO countries, there are two million people under arms; in the United States there are only 1.4 million. We Europeans have seven military satellites; the United States has over seventy. We Europeans have four carrier task groups; the United States has twelve. As Lord Gilbert said yesterday, we don't have a single wide-bodied strategic lift aircraft among us, and yet the United States owns over eighty. The United States, with just over a third of the population of NATO, provides well over half the defense spending. Defense spending doesn't have to fall remorselessly in Europe. In Britain last year, we achieved a modest increase of slightly more than one billion pounds. I understand there are eleven other European countries planning to increase defense expenditure in the near future, but I'll actually believe it when it happens. We should also watch out for some creative accounting. Of course, the traditional expression of defense budgets in

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terms of percentage of GDP can be misleading. Expenditure on defense is not a true measure of military capability, but from these few statistics, one can see that European defense efforts are nothing to be proud of. From out of the two million European servicemen in Europe, Europe found it difficult to provide just two percent of them for Kosovo. I think that's rather shaming.

Too many of Europe's armed forces are still focused on Cold War requirements. Today, they need to be rapidly deployable and sustainable. They need to be mobile and flexible so that we can make a more coherent and effective contribution to NATO as well as take action when NATO as a whole is not engaged. But I entirely agree with what Karl Kaiser said yesterday. It's inconceivable to me that we Europeans are going to carry out some military operation that NATO doesn't want us to. Our British desire is to see an improved military capability. And I mean real improvements of substance, not symbolism. I believe nations will continue to want to retain authority over their armed forces, and only national governments and national parliaments should have the authority to send their forces into areas where they may risk their lives. Of course, the EU will need a small military staff if it is to take sensible decisions about security matters, particularly if it has to take responsibility for military objectives when NATO is not engaged. This small staff would also form a crucial element of the link between the EU and NATO. The EU will also need some form of crisis management organization if it is to be able to launch and then conduct military operations in response to international crises.

What we do not need are unnecessary headquarters, unnecessary commands, more Brussels committees, more ambassadors, and more generals. They will not give comfort to those on operations at sea, on land, or in the air. Of course, there will be a need for a proper NATO-EU interface to allow the EU to draw on NATO's established and very effective planning machine and key collective capabili-

ties. NATO has already agreed in principle to develop such arrangements at the 1999 Washington Summit, but we must do all we can to avoid duplication. None of us can afford two sets of forces, one for NATO and for Europe. Non-EU NATO countries are likely to be invited to participate in EU operations. Thus transparency in the planning process will be essential—such countries would wish to convince themselves that any such operation had been properly conceived and thought through before agreeing to contribute their own forces. These coordinating organizations need to be kept taut and draw on existing structures.

There is an argument that a strong, more assertive Europe will undermine NATO. I think that argument is wrong. A Europe which remains allied to the United States simply because of its own weakness is of limited value. Europe's weakness to provide for its own security interest is more damaging to the transatlantic relationship than a strong Europe with a greater influence in decision-making. I maintain that a stronger European military capability should be good for NATO. But even an improved Europe, for the foreseeable future, could not conceive of undertaking anything other than a simple Petersberg task or soft peacekeeping tasks without American involvement. The Europeans need to recognize this fact. They are not just about to produce an army; they are not just about to produce a rapid reaction force. But I would like to keep it in perspective. There are some things at which the Europeans are very good. They are every bit as good as the Americans or anybody else when it comes to being on the ground in Kosovo or in Bosnia. So I am very proud of that aspect of the European military. I don't think we Europeans need to mirror the United States' effort. I don't think we can. The capability gap is wide between us indeed, and it's getting increasingly wider, particularly in the field of technology. My belief is we need to narrow the gap. Having raised expectations over forces better configured for expedi-

tionary operations, Europe needs to deliver or NATO will be damaged.

Now, I have outlined what I see as the British position, which would be good for NATO, good for United States, and good for the Europeans. But there are three potential problems. First, the Europeans need to put their money where their mouths are. Defense budgets must be increased. We need increased capability. We do not want increased symbolism. Second, the non-EU NATO countries need to be reassured and convinced—particularly Turkey—that ESDI [European Security and Defense Identity] is in NATO's interests and theirs. Third, there are still some who seek a degree of autonomy that would certainly damage NATO. Autonomy would lead to duplication and distrust. All three of these problems, I think, can be solved and I am actually confident they will be in time.

General Sir Charles Guthrie retired as British Chief of Defense Staff at the end of February 2001.

SERGEI YASTRZHEMBSKY

International Terrorism and Extremism: Lessons from Chechnya

I have been dealing of late with issues associated with the counter-terrorist operation in the Northern Caucasus. As practical experience has shown, Chechnya has become a sort of testing ground for international terrorists and Islamic extremists. In Chechnya, techniques were fine-tuned not merely to further dismember Russia, but also to carry out worldwide plans drawn up by such figures as Osama bin Laden. It is no accident that Chechnya has seen massive concentrations of forces and resources of international terrorists.

In the past, we underestimated the danger of Chechen separatism. Now, after having been faced not only with the danger of separatism, but also with the intimate ties between local and international terrorists, it is particularly painful that the world community lacks in-depth understanding of the threats posed to it by international terrorism and religious extremism. Therefore, my presentation will analyze some of the lessons we have learned from countering terrorism.

Separatism, Terrorism, and Human Rights in the Caucasus

To begin with, in 1996, Russia granted *de facto* full state independence to Chechnya, withdrawing militia units and troops and dismantling all federal structures. However, those steps failed to bring real independence to Chechnya because the power vacuum was immediately filled by political extremists, "soldiers of fortune," and fanatics from Afghanistan, the Middle East, and other

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regions. Ethnic cleansing was unleashed. According to the last census held in 1989, the Republic's population stood at 1,270,000 people, including 336,000 ethnic Russians. But by the time the counter-terrorist operation was undertaken in the fall 1999, there were only 20,000 Russians left in Chechnya, while the Chechen population did not exceed 500,000 people out of a total of one million Chechens living in Russia.

With the rise of the Dudayev–Maskhadov regime, executions at town squares, decapitations, and attempts to restore law and order on the basis of *shariah* perturbed both the population of the neighboring Republics and the Chechen people themselves. There is evidence that, in almost eight years of Dudayev–Maskhadov rule, more than 21,000 Russian civilians were murdered and over 46,000 people were forced into slave labor. In 1995–99, as many as 2000 hostages were deported to Chechnya from other Russian regions.

One can ask, Where was Europe? Where were all those who are so concerned today with human rights in Chechnya? Confident of their impunity, Ichkeria's leaders did not limit themselves to separatist objectives. They fell under the influence of such personalities as the Jordanian-born guerilla commander Khattab and set themselves the goal of further dismembering Russia. The bandits became impudent to the point that they invaded the neighboring Republic of Daghestan four times, which is—and I wish to emphasize this fact—a Muslim-populated region.

Then came the bombing of apartment houses in a number of Russian cities, including Moscow, that took the lives of over a thousand peaceful citizens. Extremists declared openly that their goal was to extend their influence over the territories between the Black Sea and the Caspian Sea. At that stage, it then occurred to us at last that, if the terrorist bases on Chechnya's soil were not demolished, the escalation of violence could attain unpredictable proportions and we took the necessary measures. But when terrorists are beaten they immediately

invoke their human rights, demand protection for themselves, and appeal to international organizations to come to their rescue.

Within this context I wish to remind you that the regime that wielded power in the Chechen Republic did not merely trample under foot Russia's constitutional law and challenge the territorial integrity of our state, but was also criminal under international law. Measures backed by the Maskhadov regime—including in the sphere of criminal punishment, for instance, dismemberment—were not only crimes punishable under the Russian Criminal Code, but also violated the rights and freedoms guaranteed by the European Convention for the Protection of Human Rights, the European Social Charter, the European Convention for the Prevention of Torture and Inhuman or Degrading Treatment, the European Framework Convention for the Protection of National Minorities, and so on. By their legislation and actions, Ichkeria's leaders demonstrated that the accepted rules of the civilized world held no authority for them.

Terrorism Beyond Chechnya

It should also be understood that what has been happening in Chechnya is a part of a broader process of activating extreme forces in the Near and Middle East. What is going on, for instance, in Afghanistan? This country has already surpassed the whole of Latin America in drug output. Protected by the Taliban movement, extremist organizations find refuge there to propagate terror as a means of political struggle. Afghanistan has become a source of threats to stability in Central Asia. The region has been witnessing a sharp rise in the activities of such extremist groups as the Islamic movement of Uzbekistan, the Afghan "Jamiat-i-Islami-ul Tulaba," and the "Hizb-ut-Tahrir" Party, which, in the pursuit of establishing an Islamic caliphate, has involved the direct invasion of the territories of Kyrgyzstan and Uzbekistan, as was the case last August.

The situation is very grave. Khattab, Maskhadov, Basaev, and their followers are not

merely bandits. They are international terrorists dreaming to impose their will on the whole world, dreams which they openly stated in 1999 before the aggression against Dagestan. First comes the northern Caucasus, followed by the Transcaucasus, and then Central Asia. They plan to establish advanced strongholds to back their offensives throughout the world—from the Philippines to Bosnia—and Chechnya was to play a key role. So Chechen terrorism is not only Russia's headache. This is evident from the many statements of separatist leaders. An archive belonging to a major Chechen band has been captured recently. One of the tapes features an address to Muslims by a British national, introducing himself from Manchester (his father is an African and mother is from west India). He says, among other things: "When we win the war, as in Afghanistan, we will establish a total Islamic law in Chechnya, Dagestan, and throughout the north Caucasian region. And further—in Moscow, New York, and Washington."

For unknown reasons, unmasked xenophobia and anti-Semitism displayed by gang leaders of Ichkeria have been ignored by many people in the West. One of them, Arbi Baraev, who is still fighting in Chechnya and known for his order to decapitate three Britons and a New Zealander in 1998, has stated publicly: "Jews must be killed, no matter where they are, since the prophet Mohammed left the behest that Jews must be killed."

Islam and Extremism in Chechnya

It is necessary to use the term "religious extremism" with utmost care when it concerns Islam as a world religion. Otherwise there is a tendency to equate the categories of fundamentalism—religious coloring—and extremism—political coloring. The Council of Muftis of Russia has discerned two main features distinguishing extremists from true believers: the negation of fundamental Islamic traditions; and the mentality of exclusion to the point of assuming the right to infringe on the rights of others. These characteristics have become

dominant in the public life of Chechnya during the Dudayev–Maskhadov rule.

In reality, Russia is not waging a war with religious fundamentalists. Khattab, Basaev, and their followers do not have any real relation to "fundamental" Islam in its true meaning. Have you ever seen a true Muslim believer commit massive violations of *shariah*, such as swearing on the Koran in the name of Allah, entering a mosque with arms, or killing muftis? Almost ten imams were killed in Chechnya in recent months; there were also killings of imams during the Maskhadov rule. And how should one react to the fact that almost 60 percent of foreigners taken hostage were Muslims, which is strictly forbidden by the Koran? The Ichkeria leaders are no religious "fundamentalists." They are marginals waving the banner of Islam. The present mufti of Chechnya, Shamaev, testifies that the following motto was very popular among Maskhadov's entourage: "Oil for the upper class, Islam for the lower class."

Confronting Terrorism in Chechnya and Beyond

Of course, the Chechen problem exists, and a lot of time and effort will be needed for its solution. We understand very well that it can only be resolved through political and economic measures. Such measures are the focus of the latest decisions by the President of Russia to reduce the number of troops in Chechnya, form a republican government, and increase financing for the restoration of the Republic. To simply abandon everything there and withdraw would create another vacuum and provide a new foothold for aggression against Russia. We cannot allow this. The threat coming from this terrorist enclave has taught our citizens a great deal, which is why the number of Russian people in favor of keeping Chechnya as a part of Russia has grown. This opinion was shared by only 25 percent of the population in October 1997; now the percentage is almost 60 percent. It is no coincidence that the number of those in

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Russia who favor the force operation is also high: the latest polls show that this course is supported by 47 percent of the population (it was 46 percent last November). The portion of the Russian elite holding similar views is even greater—almost 63 percent.

Chechnya is first a problem for Russia. But in a wider context, the danger of terrorism and religious extremism, the formation of such enclaves, constitute our common problem and our common risk. In this connection I cannot but note the adoption in Great Britain of a new law against terrorism, which may result in the closure of a whole range of organizations involved in terrorist activities, including those that are supporting Chechen separatists. This law is of practical significance for Russia. We circulate documents concerning terrorist acts in Chechnya to the British on a regular basis. On more than one occasion, we have drawn attention to the existence of information centers and organizations collecting financial resources that support Chechen separatism, banditry, and terrorism. We count very much on London to pay heed to our arguments and broaden the list of organizations to include those that have been helping the Chechen terrorists in material terms.

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LEE HONG-KOO

Building a Peaceful Asian Neighborhood

The last three days we've been discussing various problems of globalization. Does globalization make the world safer? Does it make our neighborhood safer? Does it make military conflict and war less likely? Does the exposure to global markets help improve national and regional security? To all these questions, my answer is, Yes, it does. As we consider the security dimension of globalization, I think it is very important to keep in mind a clear difference between Europe or the Atlantic community and Asia or the Pacific region. It's a rather obvious point, but let me just cite a few essential points.

Post-World War II history is, of course, the history of the Cold War. In Europe, the Cold War ended in the 1990s with the German reunification and the dissolution of the Soviet Union. The West—the European Union and NATO—had essentially won the contest. In the Pacific region, however, the setting is quite different. At the end of the Second World War, there were three divided countries in Asia: China, Korea, and Vietnam. And the solution to the division in all three cases took military forms. In 1949 in China, the communists won the internal conflict militarily, thereby unifying China, although the Taiwan question remains. In Vietnam, again, the communist forces united the country by a military victory in 1975. In Korea, even though we had a very severe war for three years, 1950–53, we reached a rather inconclusive end and the division still continues. So what we have in Asia is a very different setting. The outcomes of these conflicts have left different types of political systems in the region. We have to live together in a neighborhood where we clearly recognize

our internal differences, yet try to maintain peace in the region. So the task in the Pacific region is quite different from the Atlantic situation. Korea is still divided. Therefore, it is on the Korean peninsula that the final chapter of the Cold War has yet to be written.

In one of the meetings, Dr. Kissinger mentioned the fact that Asia has elements of a nineteenth century balance-of-power or concert-of-powers system. I agree. Of course, the setting is different. It is the twenty-first century. Nevertheless, perhaps what we need is a new sort of convocation of power, not for domination, but for peace and common prosperity in the region. With globalization, the people of Asia share common aspirations. We certainly would like to grow and improve our standard of living to match the other advanced regions of the world. We certainly don't want to repeat some of the mistakes we have committed in the nineteenth and twentieth centuries, making us fall behind them. So we feel that we have to make a clear decision as to how we are going to build a neighborhood that will enable us to keep prosperity and peace in the twenty-first century.

As you know, in the history books Korea is known as the hermit kingdom. We have isolated ourselves to maintain our identity and security. Now we have made a clear choice. We have made a 180-degree turn. We no longer want to be known as the hermit kingdom. We want to be an active vanguard of globalization, a model of an open and democratic society. The reason is simple. We now believe that this is the only way we can be safe and at the same time prosperous. In short, the best road to security is through globalization and building a strong regional and global neighborhood and we would like to see every party surrounding Korea constructively involved.

Korea and the Maintenance of Balance and Peace in East Asia

Geopolitics is still the most important factor in thinking about security in our region. Korea has only big neighbors. In fact, we don't have

many neighbors. I was in Berlin just a few days ago and they mentioned the fact that Germany has ten countries as neighbors sharing their borders, most of them smaller parties. The situation is quite different for Korea. We have only three immediate neighbors—China, Russia, Japan—and all three are overwhelmingly bigger than we are. That's why we need some sort of constructive balance of power in the region to maintain the peace. Yesterday, Gen. Scowcroft mentioned the fact that the United States maintains a balance of power in the region. I agree, but history has taught us that even a power like the United States cannot really succeed in maintaining a balance of power in the region as an outside power without help from the inside. Korea aspires to be that inside balancer and will try its best to maintain a balance of power and a convocation of power, which will help peace in the region.

We are a relatively small party in our neighborhood. A united Korea would have seventy million people. If we were in Europe, the united Germany would be the only country bigger than a united Korea. A united Korea would be bigger than either France or the United Kingdom. But, of course, big and small are relative terms. What is seventy million people when your immediate neighbor has 1.3 billion? In our case, our small relative size is in fact an advantage. We pose no threat to any neighbors and all our neighbors know this, which is why we feel we could play a very useful role as an inside balancer. To play that role we should be very efficient and resolute, although we are small. Those are the long-term visions we have for maintaining balance and peace in the region.

For the next few years we have to concentrate on the problem of division on the peninsula. North Korea has begun a process of major adjustment, but how successful the North Korean experiment will be no one is sure. It has built up a very special system—one leader, one party, complete disciplining of the population, and almost complete isolation. And it faces a very severe economic cri-

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sis. Its leadership would now like to make a major shift and try to catch up with overall trends in the neighborhood and in the world. Could such a system successfully change? Or do the system's constraints make it impossible to achieve? We have no definite answer. We are trying our best to utilize the new opportunities between us for peace and the eventual unification of the Korean peninsula.

As I have already mentioned, no one worries about a united Korea. A united Korea will not pose any threat to anybody. In fact, I have reason to believe that recent developments regarding Korea provide a window of opportunity for wider cooperation among the countries in the region and outside powers. For example, U.S.–China relations may enter into a more constructive period if they are engaged in resolving the Korean question. There is speculation that, in the coming months and years, the tension between the United States and China will rise and a strategic competition will take place in the region. I believe that this should not and need not be the case. The United States and China can cooperate in building a neighborhood from which everybody can draw a great deal of benefit. At the moment, we have reason to believe that both the United States and China are eager to see a peaceful and constructive resolution of the Korean question.

We need to pull together our energy and our wisdom to bring an ideal solution to the Korean question and that, in turn, will open up a new possibility for building a peaceful neighborhood in Asia. There are already very promising signs in terms of regional and global cooperation—ASEAN-Plus-Three, which has now emerged as a very constructive forum for building a neighborhood, APEC, discussions about an Asian Monetary Fund, and, of course, ASEM, which is not getting a great deal of attention because it was more symbol than substance. But I think bringing the European Union and ASEAN-Plus-Three together every other year to discuss our common issues will gain greater importance.

No one needs to worry about an Asian bloc. There isn't any bloc in Asia and there won't be. While we try to construct a peaceful neighborhood in Asia, each country in Asia also has very special relationships with outside friends and allies. For example, we Koreans believe that our strong alliance with the United States is the essential foundation upon which all our dreams and visions can be realized. There is a very well-functioning mechanism among the United States, Japan, and South Korea to deal with regional security problems. But again, these should not be in conflict with our concerted effort to build a peaceful neighborhood in the region. In short, our work in our neighborhood will constructively link itself to the global movement, in particular to the consolidation of the WTO. We look forward to China joining the WTO this year. I think this will help the general atmosphere in which a well-functioning framework for regional security can be found in the coming decade.

* * *

All in all, we believe that greater participation by everyone in an expanded market will enhance the chance for security in our region and, indeed, in the world. Therefore, as I said, we have to make a decision and I hope the political leadership everywhere, and certainly the countries represented in this Commission, will take more decisive steps in the coming months and years.

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The New Security Challenges

The old security challenges have changed so dramatically in the period since the end of the Cold War that it can hardly be overstated. The greatest threat to security, as we heard from Mr. Yastrzhembsky, often comes from armed insurrections operating at the subnational level, which his government considers criminal, but others consider to be something different. Traditional wars across borders still exist and we still have to be vigilant against them, but they are diminishing as we face problems like Chechnya, the Congo, Sierra Leone, Bosnia, Somalia, and Rwanda. This type of warfare, which we never discussed in the old days in this forum, is now the major threat to security in the traditional sense. It poses enormous problems.

Sometimes this kind of conflict is said to be caused by “ethnic hatred.” The phrase is dangerously misleading. I need to be absolutely clear on this point. Ethnic hatred is an artful euphemism for racism. In some areas, like the Balkans, the ethnic hatred which allegedly has raged for six hundred years were actually racial tensions that were exacerbated by demagogues and criminals and exploited and exploded in a way with which we’re all too familiar after the end of the Cold War. It puts the challenge to the international community in a way that was never envisaged by the founding fathers of the United Nations system. It challenges us on the definitions of sovereignty and intervention and it challenges the leading nations of the world in various ways. You can judge our responses over the last decade for yourself. Certainly in Rwanda, Somalia, and Bosnia, the UN system failed. And in Bosnia, it was only when an international coalition of NATO countries intervened that the war was brought to an end.

Sometimes “Coalition of the Willing” Must Act Outside the United Nations

I’ve heard a lot of talk and criticism here about unilateralism by the United States. In the security field, American unilateralism is virtually non-existent, except perhaps when we wrestled mighty Grenada to its knees in the mid-1980s. By and large, the United States will not and cannot act alone in the security field, but it can and should help form and lead coalitions of the willing, as it did in Desert Storm under the Bush Administration and in Bosnia and Kosovo under the Clinton Administration. This is an area where occasionally the UN is simply not qualified to act successfully. If Brent Scowcroft was laying out a prescription for foreign policy for the new U.S. Administration yesterday, the administration may find that disengaging early from some areas where they clearly feel the United States is over-committed either physically or rhetorically will draw them back in more deeply and in a more expensive way later. It simply is not possible anymore for the United States to completely ignore issues that were once far off its radar screen.

I know that the Europeans and the Japanese—particularly the European Union—believe strongly that the Security Council of the UN must be the legitimizing organization for all use of force, except in direct self-defense. In an ideal world that would be the ideal way to act. But I must say that, with all due respect for the UN, it is not always possible to get the UN Security Council to approve international actions of a security nature. It is certainly desirable. But when it is not possible and the need to act is clear and present—as it was in Bosnia in the fall of 1995, as it was in Kosovo (more arguably, but in the view of the United States and its NATO allies) in the early part of 1999—then I am afraid that the UN Security Council may not always be the legitimizing organization.

The United Nations is an imperfect but indispensable organization. When I say that we cannot always take an issue to the UN, I in

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no way, shape, or form, wish to weaken the UN. On the contrary, in the time I was privileged to serve as United States Ambassador to the UN, my overriding priority was to strengthen the United Nations and, above all, to strengthen its peacekeeping operations which have been so deeply flawed. General Guthrie (who himself played an enormously valuable role as head of the British General Staff in strengthening the UN) has given you the statistics already on the astonishing proliferation of United Nations peacekeeping operations. I do not think he would disagree with me when I say that the record of the United Nations in peacekeeping, when it goes beyond simply observing and maintaining an already agreed-upon cease-fire or withdrawal, has been very, very spotty. Bosnia, Rwanda, and Somalia almost took the United Nations down in the period between 1992 and 1994. The number of UN peacekeepers rose from 10,000 in 1989 to 80,000 in 1994 and then dropped just as precipitously by 1996. (And in case you're interested in why the United States started mistreating the UN so badly, it was at precisely that moment that the Republicans took control of both houses of Congress and passed the resolutions and restrictions that led to our appalling situation with our arrears.)

In the aftermath of these disasters, the UN began slowly to rebuild itself under the leadership of its new charismatic Secretary General, Kofi Annan. I don't think it's an exaggeration to say that Kofi Annan saved the United Nations through his personal leadership. But that success was only partial. I cannot tell those of you who have not worked with the UN in the limited amount of time available how incredibly inept the Peacekeeping Office is when it comes to operations in the field. There are four hundred people total in the peacekeeping office in New York, including secretaries and clerical staff. There are less than three people working on Sierra Leone, where over 10,000 UN peacekeepers from some twenty-five countries were

deployed. They got caught in a scandalously mis-thought-out deployment in which the Nigerians and the Indians would not talk to each other, and Ghanians and Zambians arrived without equipment or communications gear. And, of course, some were taken hostage. (And again, credit Charles Guthrie and the British for sending in their troops outside the UN mandate to stabilize the situation in Freetown.)

What happened in Sierra Leone was absolutely predictable and appalling, and yet, who else was going to do the job? It was far out of the NATO area or of a coalition of the willing of the sort that the Australians had assembled to stabilize East Timor. The East Timor operation was one of the most successful UN-sanctioned operations in history, but—and I stress this—it was not a UN operation. It was a UN-sanctioned operation. That option was not available in Sierra Leone because, regrettably, the administration of which I was part refused to respond affirmatively to the British request for a helicopter warship off the coast to support the British. So the British said, "If you don't want to help us at all, we're going to limit the scope of our involvement." The UN was left to its own devices in a situation that, in my view, could have been cleaned up relatively easily and stabilized.

No one in the world has yet faced up to the fact that if we leave a situation like Sierra Leone alone it will get worse. I know that many people in this room coming from a traditional security background will say, "So what? It doesn't matter." And others will say, "It may matter, but the resources required to deal with every problem in the world are too vast for even the developed nations." I grant the latter point. We cannot solve every problem in the world, but by simply dealing with the consequences and not the causes of these problems—which is what happens when we pour billions of dollars into refugee relief, reconstruction, and relocation—we are wasting money. In some cases, like Sierra Leone, there are solutions—although I will not

extend that assessment to the Congo, an area of such vastness and complexity that it defies a rational solution at this time. There were and remain many areas of the world where more engagement, more resources, and more leadership will make a difference. But we cannot count on the UN Peacekeeping Office to do the job adequately as it is presently structured. There was a peacekeeping reform report issued last year, headed by Amb. Lakhdar Brahimi, to which I would give a C+ for content. But even that report was only partially implemented by a General Assembly that was very reluctant to increase the size of the Secretariat.

We Cannot Ignore Africa

I want to say a word about Africa in general. When I was Ambassador to the United Nations, the United States put more focus on Africa than any of our predecessors. That momentum is continuing, not because of anything we did, but because of the objective reality that Africa cannot be ignored. I do not, however, think that our efforts have yet been remotely successful. One of the most important issues that we must watch is whether the new U.S. Administration engages Africa. We cannot ignore Africa. People continually say that discussing Africa is a kind of liberal do-good-ism, but that is nonsense. From where we sit today, we can be in Africa by plane in a few hours. Africa contains problems that will not be restricted geographically to the continent of Africa. It poses the cruelest and toughest dilemmas that we can face in the Trilateral world. If we engage them, the chances of success are limited and the resources to be expended could be wasted; if we don't engage them, the situation will get worse and draw us in even more. I see, therefore, only one choice in the end. We must engage because eventually we are going to get pulled in anyway, and the earlier we engage the better. We can't solve every problem on the continent, but we can deal with some of them. I mentioned Sierra Leone as a solvable problem. Had we been

tougher on Charles Taylor in Liberia (the Slobodan Milosevic of Africa with one big difference—he's got diamonds and Milosevic did not), it would have made a difference. The Sudan, Somalia, the Congo, and perhaps Burundi, are much more difficult issues, but they cannot be ignored.

“Soft” Security Issues of the Present Breed “Hard” Security Issues of the Future

We must deal with these traditional security issues, but there is a new set of issues that are much, much more difficult and elusive. They don't respect national borders and many people resent the fact that they are even discussed in a security context. Yet, in my view, they are security problems both directly and indirectly for their political and social consequences. I refer, of course, to the issues that some people call “soft” issues, which are, in the long run, much more serious because they are the breeding ground for the “hard” security issues of the future. One obvious issue is refugees. There are twenty million displaced people internally in the world today and ten million official refugees, so two-thirds of all the refugees in the world fall outside the UNHCR system. Sadako Ogata did a superb job with her mandate and I wish the best to Prime Minister Ruud Lubbers as he begins his job, one of the most important in the world. But the UNHCR is far from adequate to deal with this problem.

Another problem, and one on which I focused a great deal, is the problem of AIDS, not just in Africa, but on the Indian subcontinent, in Southeast Asia, in Brazil, and elsewhere in the world. Let me be clear on why we have asserted repeatedly that AIDS is a security issue. If you travel in Africa or the subcontinent (and now for the first time China has acknowledged it has a problem) and you look at the nature of the disease, the stigmatization that goes with it, the veil of silence over who has it, you will see that the very nature of this disease is more than a health crisis, although it is the worst health

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problem in six hundred years. It has the capacity to destroy entire societies—socially, economically, and politically. It threatens all the achievements of countries like Mozambique, Botswana, Namibia, and South Africa. It can undermine everything those four nations have done to promote democracy and economic success. We must not ignore it. This will be a great challenge for the UN and for the United States. For those of you looking forward to the APEC and G-7 meetings, I would add to your agenda the UN General Assembly Special Session on AIDS in late June in New York.

Issues like AIDS and other health epidemics, refugees, and, of course, issues of drugs and terrorism are the new security issues. I would also add environmental issues because, when the environment degrades, when the deserts spread in Africa or Asia, people move to the cities. These issues create more social upheavals and the next generation will face a new set of security threats that were generated by our failures to deal with them. All of these issues, plus the political issues of spreading democracy and human rights, require tremendous leadership. I respectfully disagree with Brent Scowcroft when he said approvingly that you would see less human rights and more national interests from the new administration. I think human rights is a national interest for the United States and every other country represented in this room.

The challenge for all of us is how we are going to deal with these issues. We've spent a lot of time talking about trade issues here and the international trading regime, essentially among the developed nations. And I applaud that. The group in this room has vast expertise and has done much as individuals and collectively to create the modern world trading system which has brought so much prosperity and progress to so many people. But, in my view, if we don't pay more attention to these new international security issues—and I stress they must be defined as security issues—that focus on Africa and the developing world, we

will face a very serious set of more traditional security problems in the future that we will not be adequately prepared to handle.

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