

The Sixth Annual Monash University APEC Lecture

Prospects for the WTO:
Implications for Asia,
the global economy and poverty

by The Rt Hon Mike Moore

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Honoured guests, ladies and gentlemen:

Thank you for the introduction. I'm always a little embarrassed being introduced as a former Prime Minister of New Zealand.

The tragic truth is that I was the shortest serving Prime Minister of New Zealand in 100 years.

It's hard to explain, when asked, especially by non-New Zealanders. I just say I was young, you do stupid things, it's not something I'm proud of but you do your best to rescue your family's name, by good works and perhaps over time I will be forgiven.

It's a melancholy fact that the best thing I ever did for New Zealand was leave it and become the first non-European Director-General of the World Trade Organisation.

Let's first consider the relationship between our two countries. I always say Aussies are our best friends whether we like them or not.

No two countries have more in common than Australia and New Zealand. No two nations have such a clean free trade agreement or open labour market. After a 100 years of convergence there is the beginning of divergence. Australia is becoming more like the United States and New Zealand more like Canada, a bit Nordic. While New Zealand had a few troops in Iraq and ships on station, it did not boast of being in the coalition of the willing as Australia did. New Zealand did the opposite, yet did more than many coalition members, especially that European partner that bravely sent a submarine to the Red Sea to safeguard Baghdad. In trade policy, New Zealand's interests have until recently been seen as identical. The first substantial difference has been Australia's free trade arrangements with the United States. New Zealand has not yet been able to even begin negotiations. The elephant in the living room that the polite diplomatic community will not admit to is the defence and security issue. No serious politician in New Zealand could ever support changing New Zealand's nuclear-free status. Won't happen, not a starter, its embedded in New Zealand's culture. America's more likely to abolish the death penalty and outlaw guns before Kiwis change. Given New Zealand's sharp response to Afghanistan and its commitment to peace-making and peace-keeping wherever there's a scrap, its through gritted teeth that we watch, sidelined, when the U.S does a free trade deal with Vietnam, Switzerland and Central America. What have they ever done for global security? Aussies often mutter that New Zealand's a freeloader in terms of defence, despite the fact that the present government has given defence expenditure the biggest boost in 50 years. 70% of Aussies polled believe Australia will experience a terrorist attack – no poll has ever been done in New Zealand, but I suspect the figure would not reach 5%. Lets talk about that modern `demon', globalisation. Let's also celebrate its success.

In the last 50 years, life expectancy has increased by 20 years, infant mortality rates have dropped by two-thirds. Thirty years ago, Ghana's income equalled South Korea. Now, South Korea's income equals Portugal's. And look how Portugal's income has lifted since she joined the European Union. South Korea's GDP per capita did not reach \$100 until 1963. Since then, life expectancy has risen from 54 years to 73 years. Infant mortality has dropped from 8 percent to 0.8 percent. Malaysia and Haiti were equal in 1950. Burma and Thailand had equal incomes in 1945. Thailand is now 25 times richer than Burma. Examine Chile and the Argentine, North and South Korea. So much for those who argue globalisation means governments don't matter. Thirty years ago Japan was a developing country, the Baltic States and the Czech Republic had living standards closer to France and Denmark before the Soviet experience. Their income per person was just half that of their previous equals by the time the Soviet Empire imploded.

The more open the society, the better the result. This has been underpinned by the agreed rules of the World Trade Organisation.

Is globalisation new? Of course not. In fact, there are those who argue there is less trade now as a percentage of GNP than there was a hundred years ago, in the main, I think it's been a good thing, and occasionally we should celebrate the great advances of the last 50 years. There has never been a period in the history of our species where we've seen freedoms and living standards rise so consistently for most people. Those countries that have done best are those that have adopted pillars of good behaviour, good clean governance, accountable leaders, property and civil rights, a free media, an active civil society, and religious tolerance freed of and from religion. And we have evidence in country after country that it works. The number of democracies is increasing – in 1988 two-thirds of states were undemocratic, now the proportion has been reversed. Totalitarianism societies are becoming authoritarian and for the first time in human history a majority of people are living in a system of self-government. A splendid new study entitled 'The Democratic Advantage' explains:

- 95% of the worst economic performances of the past 40 years were under non-democratic governments.
- virtually all refugee crises have been wrought by autocratic governments.
- 80% of all interstate conflicts are instigated by autocracies. They are more vulnerable to civil wars.
- There has never been a famine in a democracy with a free press.

Poor democracies and countries in transition to democracy have nearly always outperformed authoritarian countries. Consider what's important. Life expectancy, literacy, infant mortality, agricultural productivity, clean water, democracies get results 20% to 40% higher than their authoritarian counterparts. There's a popular misconception

that democracies have greater debts and bigger deficits, this is backed up by the evidence. Democracies are less corrupt, more efficient because their leaders and civil services are more accountable and an active civil society, trade unions and free media are the watch-dogs, this cleansing air of transparency and the adaptability of democratic forces makes for better results. There is such a thing as a democratic peace, democracies do not go to war with each other. As the number of democracies has increased, the number of wars, indeed civil wars have dropped.

The more open the society and the more open the economy, the better the results, we know what works.

What nations do with their wealth created by open economies and globalisation is their responsibility. You know the story of the sailor who won a fortune, then spent $\frac{1}{3}$ on gin, $\frac{1}{3}$ on women, and frittered away the rest. Successful countries spend wisely.

We have the levers, we can pull them, we just refuse to do so. We know from bitter experience what works and what does not. Perhaps we've forgotten what's right and what's wrong, and that we do live in an interdependent world which is not yet fully politically integrated. Some guy coughs in Hong Kong – that closes down Toronto. Some overweight computer nerd flicks a virus out and closes me down in Geneva. Businesses cannot exist in a vacuum. They are vulnerable. They will respond or they'll be punished. Science, commerce, cultures, are advancing faster than our political capacity, our ethical or legal capacity to cope. Yet we know that no nation, mighty or modest, can prosper, be free from terrorism, enjoy clean air, manage a tax system, or even run an airline, without the co-operation of others.

Which reminds me of the story of a devout man, who bothered God a lot, praying every day to win Lotto. "God, let me win Lotto. God, let me win Lotto. I am a good God-fearing man, let me win Lotto." After several years, God got a little weary. Thunder crashed and in a blaze of lightning, God said, "Help me out here, buy a ticket!"

You have to buy a ticket, buy into the successful formula, own the problem, let people own their problems and solutions. We know that works. Its ownership.

As Larry Summers said, "No-one in history has ever cleaned a rental car,"

It seems to be a world of insurmountable opportunities.

The media warn of a world run by logos? Is this dangerous? Now what is a brand but a reputation? All that represents is the goodwill and trust stored up over years of success.

I think the opposite will happen to what some activists fear. A reputation is vulnerable. Its hard to win, It's easy to lose. Corporates live in a world of free information. Investigative journalists, NGO's, opportunist politicians on the prowl for a

headline. Business and government must conduct themselves in a more ethical and transparent manner. I think that is splendid. Virtue will be rewarded. Isn't that a good thing? And companies will have to explain themselves, I see no danger in that.

So open societies and globalisation drive up choice, competition and transparency, and there will be a real cost for those who stand in the way. And if people worry about corporate power, I say they should pray for globalisation. Freeing trade curbs domestic giants by exposing them to competition. Closed domestic markets, where national champions cozy up to governments, are more likely to be monopolies than global ones.

And the irony is this – that when you spend time in the poorest countries, it's not globalisation they fear, it's marginalisation.

The global trading rules have played a major role in this increased prosperity. In 1945, who would have thought within 50 years:

- Japan would be the second largest economy?
- Germany, the third largest economy?

Early next month Trade Ministers from 148 countries will meet in Hong Kong to try and make progress on the Doha Development round. A new round has the potential to add the equivalent of another China to the world economy and lift hundreds of millions out of extreme poverty. Brazil alone would gain a quarter of a million new jobs, half of which would go to the poorest third of its workers. Despite the obvious gains for everyone, the talks are in trouble. Agriculture is the issue as always. Rich countries spend a billion dollars a day in subsidies, it devours half of the European Union's budget.

This billion dollars a day on agricultural subsidies to make food dearer and that stops a choice for working families. Kofi Annan wants \$12 billion to fight AIDS. That's only 12 days of subsidies from the rich people.

And if you wonder why kids are in the street protesting, perhaps from time to time, they're right. I could talk to you about the tragedy of some of the commodities, sugar, cotton, if the U.S. could just do something about its cotton subsidies, that would return \$250 million a year to West Africa. And look at sugar, what a disgrace. Europeans and Americans are paying 50 percent more than they should for their sugar, starving the poor countries, the Caribbean and Africa, of those jobs, and self-righteously giving lectures about free enterprise and free markets.

The story of coffee is equally tragic. Ten years ago, the coffee industry was worth about \$30 billion, and farmers got about \$10 billion. Now the industry is worth about \$60 billion and farmers get about \$5.5 billion. Coffee prices are at their lowest in a

hundred years. Why? Because some worthy, good person in Europe and Washington felt sorry for Vietnam and thought they could grow coffee: And they could. Now they're the world's second biggest producer. And get this, no wonder the kids are in the street. Sixty percent of Ethiopia's exports are coffee. I think that's about 50 percent for Kenya. I'm grinding my coffee, but if I dare process it, if I dare add value, if I dare add an idea to that coffee bean, roast it, try to market it, the Europeans and the Americans have a thing called tariff escalation, and will escalate the tariffs till they put you out of business. How bad is that?

Europe has offered its biggest cuts yet but these are seen as not enough and has been. Recently leaders and Trade Ministers from Asia and the Pacific recently called for progress that read well in the newspapers, but what does it mean? Bluntly, APEC declarations are not binding, are vague enough for those members like Japan and Korea who are reluctant to substantially change agricultural policies to let the European Union feel the heat and offer little. APEC was supposed to have free trade for developed countries in 2010, and developing countries by 2020. Not a chance of it happening, it's embarrassing to even remind leaders of their previous promises. APEC was to be WTO-compatible and lever its reforms into a global deal. The opposite is happening. Leaders talk tall of the WTO and the Doha round, then go into small huddles to advance bilateral and sub-regional deals. Hell, I'd be doing the same if I was a Minister and leader. But let's remind ourselves of what's happening in Asia and the Pacific. All roads lead to China. China, plus ASEAN, Australia and New Zealand, studies with Korea, hints about Japan and India. What's wrong with this picture? Its APEC without the Americas! The U.S. administration has now conceded failure in doing a deal in the Americas. Meanwhile Venezuelan populist President Chavez talks boldly and for hours about an Americas deal without North America. All these regional and bilateral deals actually distort trade, create new barriers, exemptions, privileges, rules and conditions that raise prices and will cause heartache and political tension in the future. No regional or bilateral deal has ever handled agriculture fairly or established an open, binding disputes system. Everyone wants to do a deal with China, U.S. and Japan, but who wants to do a deal with Malawi, Papua-New Guinea, Bolivia? It's the small and poor who will again be cut out.

The Doha Development round offers the greatest opportunity in history to redistribute wealth and opportunity. That's why at the moment I don't think the Ministerial in Hong Kong will collapse. There doesn't seem to be a Plan A, but Plan B will be to ensure that the cracks are not allowed to kill the round. Look for words like 'redoubling efforts', calls for 'more flexibility', perhaps even telling the truth that the meeting 'has not narrowed differences and that Ministers should meet again'. Here's the problem. French election next year and a U.S. Congress that may not extend authority for the President to negotiate which expires in 2007. Everyone in a deal like this needs to take something home to claim a victory. Nothing in the WTO is ever

agreed until everything is agreed. When you are cornered in negotiation you need to enlarge the context. This means giving those who have the most problems something to take home.

Unhelpful are the shallow crowd-pleasing comments from the Commonwealth attacking the WTO for not doing enough for the poor countries and threatening a walkout. The WTO can only do what its members let it. The Commonwealth once did constructive diagnostic studies and capacity-building, now it acts like an NGO, like protestors at the gate. I was an economic nationalist, actually a protectionist, until the late 1970's and it was a Commonwealth study and research on New Zealand's closer economic agreement with Australia that changed me. They should say this round will not be cost and change-free to developing countries, some progress must be reported in opening services, this is in their interests and gives the agricultural protectionists something to bank in their capitals. That's the deal-maker. Smart people will be working on this, but too late, it appears, for the Hong Kong meeting.

Perhaps its time to remind ourselves why open trade is a good idea, why it works. Sadly, trade liberalization is too often seen as a trade-off, something you do if you get something back. Its economic sense to do it anyway. This has been proven in country after country. That's why agreements that postpone reform for years are doing poor countries no favours. Its called 'special and deferential' treatment. Its fair and good to allow space and to ensure the sequence of reform works. Governments that rely on tariffs for Government income need assistance to put in place new more efficient tax regimes. But to ignore economic reality, reject good governance principles is a bit like the overweight chain-smoker saying, "I'll give up, go on a diet in 5 years." Barriers between developing countries are often higher than barriers between rich and poor countries. The new Director-General needs to remind Governments why our parents created an open world rules-based trading system. Immanuel Kant, in his essay in 'Perpetual Peace', suggested "Durable peace could be built upon the tripod of representative democracy, international organization and economic dependence." By 'dependence' he means economic integration. President Wilson gave the same speech when the world failed to create a durable international architecture after the First World War. Mill, Hume and Adam Smith all argued that expanded commerce produced good government, reduced the propensity for conflict enhanced individual liberty and security, and promoted equality by lessening the servile dependence of individuals on their superiors. The effect of increased commerce on individual freedom was, according to Smith, the least observed advantage of commerce.

Trade exchange of services creates friends, it is control that breeds enemies. That's why new trade opportunities between India and Pakistan, China and Taiwan offer hope. Let trade and people be free and the International frontiers will cease to be such a problem. Every time we trade, we are making an agreement with somebody and,

in the absence of coercion, both parties walk away better off. Huge amalgamations of states offer tempting targets for the wrong type of politics. It should never be forgotten that one reason the multilateral system was established was the fear of the rise of rival competitive trading blocks which did so much damage in the 1930's.

In the old days, they said if trade did not move, armies would. Now it's armies of desperate migrants who will move from oppressive, closed economies to the magnets of success, those economies that are free, open and growing. These desperate people are the weapons of mass migration. The Doha Development round, if implemented, will mean the greatest redistribution of opportunity and then wealth in history. It will give real meaning to the speeches so often given about how poverty, despair and humiliation are a breeding ground for desperate extremism.

Boldness is the best friend of change. Half-hearted changes will give further strength to bilateral and regional deals, disputes between states will grow. Ministers must be kept busy with the big picture. Trade negotiations are like riding a bike, you must go forward or fall over. Trade rounds have never failed, they just never fail to disappoint by not going far enough. The stakes are highest for the poorest.

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