GLOBALIZATION OF BUSINESS

READERS | 2024

The New York Times
nytimes.com

April 3, 2005

It's a Flat World, After All

By THOMAS L. FRIEDMAN

In 1492 Christopher Columbus set sail for India, going west. He had the Nina, the Pinta and the Santa Maria. He never did find India, but he called the people he met "Indians" and came home and reported to his king and queen: "The world is round." I set off for India 512 years later. I knew just which direction I was going. I went east. I had Lufthansa business class, and I came home and reported only to my wife and only in a whisper: "The world is flat."

And therein lies a tale of technology and geoeconomics that is fundamentally reshaping our lives -- much, much more quickly than many people realize. It all happened while we were sleeping, or rather while we were focused on 9/11, the dot-com bust and Enron -- which even prompted some to wonder whether globalization was over. Actually, just the opposite was true, which is why it's time to wake up and prepare ourselves for this flat world, because others already are, and there is no time to waste.

I wish I could say I saw it all coming. Alas, I encountered the flattening of the world quite by accident. It was in late February of last year, and I was visiting the Indian high-tech capital, Bangalore,

working on a documentary for the Discovery Times channel about outsourcing. In short order, I interviewed Indian entrepreneurs who wanted to prepare my taxes from Bangalore, read my X-rays from Bangalore, trace my lost luggage from Bangalore and write my new software from Bangalore. The longer I was there, the more upset I became -- upset at the realization that while I had been off covering the 9/11 wars, globalization had entered a whole new phase, and I had missed it. I guess the eureka moment came on a visit to the campus of Infosys Technologies, one of the crown jewels of the Indian outsourcing and software industry. Nandan Nilekani, the Infosys C.E.O., was showing me his global video-conference room, pointing with pride to a wall-size flat-screen TV, which he said was the biggest in Asia. Infosys, he explained, could hold a virtual meeting of the key players from its entire global supply chain for any project at any time on that supersize screen. So its American designers could be on the screen speaking with their Indian software writers and their Asian manufacturers all at once. That's what globalization is all about today, Nilekani said. Above the screen there were eight clocks that pretty well summed up the Infosys workday: 24/7/365. The clocks were labeled U.S. West, U.S. East, G.M.T., India, Singapore, Hong Kong, Japan, Australia.

"Outsourcing is just one dimension of a much more fundamental thing happening today in the world," Nilekani explained. "What happened over the last years is that there was a massive investment in technology, especially in the bubble era, when hundreds of millions of dollars were invested in putting broadband connectivity around the world, undersea cables, all those things." At the same time, he added, computers became cheaper and dispersed all over the world, and there was an explosion of e-mail software, search engines like Google and proprietary software that can chop up any piece of work and send one part to Boston, one part to Bangalore and one part to Beijing, making it easy for anyone to do remote development. When all of these things suddenly came together around 2000, Nilekani said, they "created a platform where intellectual work, intellectual capital, could be delivered from anywhere.

It could be disaggregated, delivered, distributed, produced and put back together again -- and this gave a whole new degree of freedom to the way we do work, especially work of an intellectual nature. And what you are seeing in Bangalore today is really the culmination of all these things coming together."

At one point, summing up the implications of all this, Nilekani uttered a phrase that rang in my ear. He said to me, "Tom, the playing field is being leveled." He meant that countries like India were now able to compete equally for global knowledge work as never before -- and that America had better get ready for this. As I left the Infosys campus that evening and bounced along the potholed road back to Bangalore, I kept chewing on that phrase: "The playing field is being leveled."

"What Nandan is saying," I thought, "is that the playing field is being flattened. Flattened? Flattened? My God, he's telling me the world is flat!"

Here I was in Bangalore -- more than 500 years after Columbus sailed over the horizon, looking for a shorter route to India using the rudimentary navigational technologies of his day, and returned safely to prove definitively that the world was round -- and one of India's smartest engineers, trained at his country's top technical institute and backed by the most modern technologies of his day, was telling me that the world was flat, as flat as that screen on which he can host a meeting of his whole global supply chain. Even more interesting, he was citing this development as a new milestone in human progress and a great opportunity for India and the world -- the fact that we had made our world flat!

This has been building for a long time. Globalization 1.0 (1492 to 1800) shrank the world from a size large to a size medium, and the dynamic force in that era was countries globalizing for resources and imperial conquest. Globalization 2.0 (1800 to 2000) shrank the world from a size medium to a size small, and it was spearheaded by companies globalizing for markets and labor. Globalization 3.0 (which started around 2000) is shrinking the world from a size small to a size tiny and flattening the playing field at the same time. And while the dynamic force in Globalization 1.0 was countries globalizing and the dynamic force in Globalization 2.0 was companies globalizing, the dynamic force in Globalization 3.0 -- the thing that gives it its unique character -- is individuals and small groups globalizing. Individuals must, and can, now ask: where do I fit into the global competition and opportunities of the day, and how can I, on my own, collaborate with others globally? But Globalization 3.0 not only differs from the previous eras in how it is shrinking and flattening the world and in how it is empowering individuals. It is also different in that Globalization 1.0 and 2.0 were driven primarily by European and American companies and countries. But going forward, this will be less and less true. Globalization 3.0 is not only going to be driven more by individuals but also by a much more diverse -- non-Western, nonwhite -- group of individuals. In Globalization 3.0, you are going to see every color of the human rainbow take part.

"Today, the most profound thing to me is the fact that a 14-year-old in Romania or Bangalore or the Soviet Union or Vietnam has all the information, all the tools, all the software easily available to apply knowledge however they want," said Marc Andreessen, a co-founder of Netscape and creator of the first commercial Internet browser. "That is why I am sure the next Napster is going to come out of left field. As bioscience becomes more computational and less about wet labs and as all the genomic data becomes easily available on the Internet, at some point you will be able to design vaccines on your laptop."

Andreessen is touching on the most exciting part of Globalization 3.0 and the flattening of the world: the fact that we are now in the process of connecting all the knowledge pools in the world together. We've tasted some of the downsides of that in the way that Osama bin Laden has connected terrorist knowledge pools together through his Qaeda network, not to mention the work of teenage hackers spinning off more and more lethal computer viruses that affect us all. But the upside is that by connecting all these knowledge pools we are on the cusp of an incredible new era of innovation, an era that will be driven from left field and right field, from West and East and from North and South. Only 30 years ago, if you had a choice of being born a B student in Boston or a genius in Bangalore or Beijing, you probably would have chosen Boston, because a genius in Beijing or Bangalore could not really take advantage of his or her talent. They could not plug and play globally. Not anymore. Not when the world is flat, and anyone with smarts, access to Google and a cheap wireless laptop can join the innovation fray.

When the world is flat, you can innovate without having to emigrate. This is going to get interesting. We are about to see creative destruction on steroids.

How did the world get flattened, and how did it happen so fast?

It was a result of 10 events and forces that all came together during the 1990's and converged right around the year 2000. Let me go through them briefly. The first event was 11/9. That's right -- not 9/11, but 11/9. Nov. 9, 1989, is the day the Berlin Wall came down, which was critically important because it allowed us to think of the world as a single space. "The Berlin Wall was not only a symbol of keeping people inside Germany; it was a way of preventing a kind of global view of our future," the Nobel Prize-winning economist Amartya Sen said. And the wall went down just as the windows went up -- the breakthrough Microsoft Windows 3.0 operating system, which helped to flatten the playing field even more by creating a global computer interface, shipped six months after the wall fell.

The second key date was 8/9. Aug. 9, 1995, is the day Netscape went public, which did two important things. First, it brought the Internet alive by giving us the browser to display images and data stored on Web sites. Second, the Netscape stock offering triggered the dot-com boom, which triggered the dot-com bubble, which triggered the massive overinvestment of billions of dollars in fiber-optic telecommunications cable. That overinvestment, by companies like Global Crossing, resulted in the willy-nilly creation of a global undersea-underground fiber network, which in turn drove down the cost of transmitting voices, data and images to practically zero, which in turn accidentally made Boston, Bangalore and Beijing next-door neighbors overnight. In sum, what the Netscape revolution did was bring people-to-people connectivity to a whole new level. Suddenly more people could connect with more other people from more different places in more different ways than ever before.

No country accidentally benefited more from the Netscape moment than India. "India had no resources and no infrastructure," said Dinakar Singh, one of the most respected hedge-fund managers on Wall Street, whose parents earned doctoral degrees in biochemistry from the University of Delhi before emigrating to America. "It produced people with quality and by quantity. But many of them rotted on the docks of India like vegetables. Only a relative few could get on ships and get out. Not anymore, because we built this ocean crosser, called fiber-optic cable. For decades you had to leave India to be a professional. Now you can plug into the world from India. You don't have to go to Yale and go to work for Goldman Sachs." India could never have afforded to pay for the bandwidth to connect brainy India with high-tech America, so American shareholders paid for it. Yes, crazy overinvestment can be good. The overinvestment in railroads turned out to be a great boon for the American economy. "But the railroad overinvestment was confined to your own country and so, too, were the benefits," Singh said. In the case of the digital railroads, "it was the foreigners who benefited." India got a free ride.

The first time this became apparent was when thousands of Indian engineers were enlisted to fix the Y2K -- the year 2000 -- computer bugs for companies from all over the world. (Y2K should be a national holiday in India. Call it "Indian Interdependence Day," says Michael Mandelbaum, a foreignpolicy analyst at Johns Hopkins.) The fact that the Y2K work could be outsourced to Indians was made possible by the first two flatteners, along with a third, which I call "workflow." Workflow is shorthand for all the software applications, standards and electronic transmission pipes, like middleware, that connected all those computers and fiber-optic cable. To put it another way, if the Netscape moment connected people to people like never before, what the workflow revolution did was connect applications to applications so that people all over the world could work together in manipulating and shaping words, data and images on computers like never before.

Indeed, this breakthrough in people-to-people and application-to-application connectivity produced, in short order, six more flatteners -- six new ways in which individuals and companies could collaborate on work and share knowledge. One was "outsourcing." When my software applications could connect seamlessly with all of your applications, it meant that all kinds of work -- from accounting to software-writing -- could be digitized, disaggregated and shifted to any place in the world where it could be done better and cheaper. The second was "offshoring." I send my whole factory from Canton, Ohio, to Canton, China. The third was "open-sourcing." I write the next operating system, Linux, using engineers collaborating together online and working for free. The fourth was "insourcing." I let a company like UPS come inside my company and take over my whole logistics operation -- everything from filling my orders online to delivering my goods to repairing them for customers when they break. (People have no idea what UPS really does today. You'd be amazed!). The fifth was "supply-chaining." This is Wal-Mart's specialty. I create a global supply chain down to the last atom of efficiency so that if I sell an item in Arkansas, another is immediately made in China. (If Wal-Mart were a country, it would be China's eighth-largest trading partner.) The last new form of collaboration I call "informing" -- this is Google, Yahoo and MSN Search, which now allow anyone to collaborate with, and mine, unlimited data all by themselves.

So the first three flatteners created the new platform for collaboration, and the next six are the new forms of collaboration that flattened the world even more. The 10th flattener I call "the steroids," and these are wireless access and voice over Internet protocol (VoIP). What the steroids do is turbocharge all these new forms of collaboration, so you can now do any one of them, from anywhere, with any device.

The world got flat when all 10 of these flatteners converged around the year 2000. This created a global, Web-enabled playing field that allows for multiple forms of collaboration on research and work in real time, without regard to geography, distance or, in the near future, even language. "It is the creation of this platform, with these unique attributes, that is the truly important sustainable breakthrough that made what you call the flattening of the world possible," said Craig Mundie, the chief technical officer of Microsoft.

No, not everyone has access yet to this platform, but it is open now to more people in more places on more days in more ways than anything like it in history. Wherever you look today -- whether it is the world of journalism, with bloggers bringing down Dan Rather; the world of software, with the Linux code writers working in online forums for free to challenge Microsoft; or the world of business, where Indian and Chinese innovators are competing against and working with some of the most advanced Western multinationals -- hierarchies are being flattened and value is being created less and less within vertical silos and more and more through horizontal collaboration within companies, between companies and among individuals.

Do you recall "the IT revolution" that the business press has been pushing for the last 20 years? Sorry to tell you this, but that was just the prologue. The last 20 years were about forging, sharpening and distributing all the new tools to collaborate and connect. Now the real information revolution is about to begin as all the complementarities among these collaborative tools start to converge. One of those who first called this moment by its real name was Carly Fiorina, the former Hewlett-Packard C.E.O., who in 2004 began to declare in her public speeches that the dot-com boom and bust were just "the end of the beginning." The last 25 years in technology, Fiorina said, have just been "the warm-up act." Now we are going into the main event, she said, "and by the main event, I mean an era in which technology will truly transform every aspect of business, of government, of society, of life."

As if this flattening wasn't enough, another convergence coincidentally occurred during the 1990's that was equally important. Some three billion people who were out of the game walked, and often ran, onto the playing field. I am talking about the people of China, India, Russia, Eastern Europe, Latin America and Central Asia. Their economies and political systems all opened up during the course of the 1990's so that their people were increasingly free to join the free market. And when did these three billion people converge with the new playing field and the new business processes? Right when it was being flattened, right when millions of them could compete and collaborate more equally, more horizontally and with cheaper and more readily available tools. Indeed, thanks to the flattening of the world, many of these new entrants didn't even have to leave home to participate. Thanks to the 10 flatteners, the playing field came to them!

It is this convergence -- of new players, on a new playing field, developing new processes for horizontal collaboration -- that I believe is the most important force shaping global economics and politics in the early 21st century. Sure, not all three billion can collaborate and compete. In fact, for most people the world is not yet flat at all. But even if we're talking about only 10 percent, that's 300 million people -- about twice the size of the American work force. And be advised: the Indians and Chinese are not racing us to the bottom. They are racing us to the top. What China's leaders really want is that the next generation of underwear and airplane wings not just be "made in China" but also be "designed in China." And that is where things are heading. So in 30 years we will have gone from "sold in China" to "made in China" to "designed in China" to "dreamed up in China" -- or from China as collaborator with the worldwide manufacturers on nothing to China as a low-cost, high-quality, hyperefficient collaborator with worldwide manufacturers on everything. Ditto India. Said Craig Barrett, the C.E.O. of Intel, "You don't bring three billion people into the world economy overnight without huge consequences, especially from three societies" -- like India, China and Russia -- "with rich educational heritages."

That is why there is nothing that guarantees that Americans or Western Europeans will continue leading the way. These new players are stepping onto the playing field legacy free, meaning that many of them were so far behind that they can leap right into the new technologies without having to worry about all the sunken costs of old systems. It means that they can move very fast to adopt new, state-of-the-art technologies, which is why there are already more cellphones in use in China today than there are people in America.

If you want to appreciate the sort of challenge we are facing, let me share with you two conversations. One was with some of the Microsoft officials who were involved in setting up Microsoft's research center in Beijing, Microsoft Research Asia, which opened in 1998 -- after Microsoft sent teams to Chinese universities to administer I.Q. tests in order to recruit the best brains from China's 1.3 billion people. Out of the 2,000 top Chinese engineering and science students tested, Microsoft hired 20. They have a saying at Microsoft about their Asia center, which captures the intensity of competition it takes to win a job there and explains why it is already the most productive research team at Microsoft: "Remember, in China, when you are one in a million, there are 1,300 other people just like you."

The other is a conversation I had with Rajesh Rao, a young Indian entrepreneur who started an electronic-game company from Bangalore, which today owns the rights to Charlie Chaplin's image for mobile computer games. "We can't relax," Rao said. "I think in the case of the United States that is what happened a bit. Please look at me: I am from India. We have been at a very different level before in terms of technology and business. But once we saw we had an infrastructure that made the world a small place, we promptly tried to make the best use of it. We saw there were so many things we could do. We went ahead, and today what we are seeing is a result of that. There is no time to rest. That is gone. There are dozens of people who are doing the same thing you are doing, and they are trying to do it better. It is like water in a tray: you shake it, and it will find the path of least resistance. That is what is going to happen to so many jobs -- they will go to that corner of the world where there is the least resistance and the most opportunity. If there is a skilled person in Timbuktu, he will get work if he knows how to access the rest of the world, which is quite easy today. You can make a Web site and have an e-mail address and you are up and running. And if you are able to demonstrate your work, using the same infrastructure, and if people are comfortable giving work to you and if you are diligent and clean in your transactions, then you are in business."

Instead of complaining about outsourcing, Rao said, Americans and Western Europeans would "be better off thinking about how you can raise your bar and raise yourselves into doing something better. Americans have consistently led in innovation over the last century. Americans whining -- we have never seen that before."

Rao is right. And it is time we got focused. As a person who grew up during the cold war, I'll always remember driving down the highway and listening to the radio, when suddenly the music would stop and a grim-voiced announcer would come on the air and say: "This is a test. This station is conducting a test of the Emergency Broadcast System." And then there would be a 20-second high-pitched siren sound. Fortunately, we never had to live through a moment in the cold war when the announcer came on and said, "This is a not a test."

That, however, is exactly what I want to say here: "This is not a test."

The long-term opportunities and challenges that the flattening of the world puts before the United States are profound. Therefore, our ability to get by doing things the way we've been doing them -- which is to say not always enriching our secret sauce -- will not suffice any more. "For a country as wealthy we are, it is amazing how little we are doing to enhance our natural competitiveness," says Dinakar Singh, the Indian-American hedge-fund manager. "We are in a world that has a system that now allows convergence among many billions of people, and we had better step back and figure out what it means. It would be a nice coincidence if all the things that were true before were still true now, but there are quite a few things you actually need to do differently. You need to have a much more thoughtful national discussion."

If this moment has any parallel in recent American history, it is the height of the cold war, around 1957, when the Soviet Union leapt ahead of America in the space race by putting up the Sputnik satellite. The main challenge then came from those who wanted to put up walls; the main challenge to America today comes from the fact that all the walls are being taken down and many other people can now compete and collaborate with us much more directly. The main challenge in that world was from those practicing extreme Communism, namely Russia, China and North Korea. The main challenge to America today is from those practicing extreme capitalism, namely China, India and South Korea. The main objective in that era was building a strong state, and the main objective in this era is building strong individuals.

Meeting the challenges of flatism requires as comprehensive, energetic and focused a response as did meeting the challenge of Communism. It requires a president who can summon the nation to work harder, get smarter, attract more young women and men to science and engineering and build the broadband infrastructure, portable pensions and health care that will help every American become more employable in an age in which no one can guarantee you lifetime employment.

We have been slow to rise to the challenge of flatism, in contrast to Communism, maybe because flatism doesn't involve ICBM missiles aimed at our cities. Indeed, the hot line, which used to connect the Kremlin with the White House, has been replaced by the help line, which connects everyone in America to call centers in Bangalore. While the other end of the hot line might have had Leonid Brezhnev threatening nuclear war, the other end of the help line just has a soft voice eager to help you sort out your AOL bill or collaborate with you on a new piece of software. No, that voice has none of the menace of Nikita Khrushchev pounding a shoe on the table at the United Nations, and it has none of the sinister snarl of the bad guys in "From Russia With Love." No, that voice on the help line just has a friendly Indian lilt that masks any sense of threat or challenge. It simply says: "Hello, my name is Rajiv. Can I help you?"

No, Rajiv, actually you can't. When it comes to responding to the challenges of the flat world, there is no help line we can call. We have to dig into ourselves. We in America have all the basic economic and educational tools to do that. But we have not been improving those tools as much as we should. That is why we are in what Shirley Ann Jackson, the 2004 president of the American Association for the Advancement of Science and president of Rensselaer Polytechnic Institute, calls a "quiet crisis" -- one that is slowly eating away at America's scientific and engineering base.

"If left unchecked," said Jackson, the first African-American woman to earn a Ph.D. in physics from M.I.T., "this could challenge our pre-eminence and capacity to innovate." And it is our ability to constantly innovate new products, services and companies that has been the source of America's horn of plenty and steadily widening middle class for the last two centuries. This quiet crisis is a product of three gaps now plaguing American society. The first is an "ambition gap." Compared with the young, energetic Indians and Chinese, too many Americans have gotten too lazy. As David Rothkopf, a former official in the Clinton Commerce Department, puts it, "The real entitlement we need to get rid of is our sense of entitlement." Second, we have a serious numbers gap building. We are not producing enough engineers and scientists. We used to make up for that by importing them from India and China, but in a flat world, where people can now stay home and compete with us, and in a post-9/11 world, where we are insanely keeping out many of the first-round intellectual draft choices in the world for exaggerated security reasons, we can no longer cover the gap. That's a key reason companies are looking abroad. The numbers are not here. And finally we are developing an education gap. Here is the dirty little secret that no C.E.O. wants to tell you: they are not just outsourcing to save on salary. They are doing it because they can often get better-skilled and more productive people than their American workers.

These are some of the reasons that Bill Gates, the Microsoft chairman, warned the governors' conference in a Feb. 26 speech that American high-school education is "obsolete." As Gates put it: "When I compare our high schools to what I see when I'm traveling abroad, I am terrified for our work force of tomorrow. In math and science, our fourth graders are among the top students in the world. By eighth grade, they're in the middle of the pack. By 12th grade, U.S. students are scoring near the bottom of all industrialized nations. . . . The percentage of a population with a college degree is important, but so are sheer numbers. In 2001, India graduated almost a million more students from college than the United States did. China graduates twice as many students with bachelor's degrees as the U.S., and they have six times as many graduates majoring in engineering. In the international competition to have the biggest and best supply of knowledge workers, America is falling behind."

We need to get going immediately. It takes 15 years to train a good engineer, because, ladies and gentlemen, this really is rocket science. So parents, throw away the Game Boy, turn off the television and get your kids to work. There is no sugar-coating this: in a flat world, every individual is going to have to run a little faster if he or she wants to advance his or her standard of living. When I was growing up, my parents used to say to me, "Tom, finish your dinner -- people in China are starving." But after sailing to the edges of the flat world for a year, I am now telling my own daughters, "Girls, finish your homework -- people in China and India are starving for your jobs."

I repeat, this is not a test. This is the beginning of a crisis that won't remain quiet for long. And as the Stanford economist Paul Romer so rightly says, "A crisis is a terrible thing to waste."

Thomas L. Friedman is the author of "The World Is Flat: A Brief History of the Twenty-First Century," to be published this week by Farrar, Straus & Giroux and from which this article is adapted. His column appears on the Op-Ed page of The Times, and his television documentary "Does Europe Hate Us?" will be shown on the Discovery Channel on April 7 at 8 p.m.

WHY THE WORLD ISN'T FLAT

Globalization has bound people, countries, and markets closer than ever, rendering national borders relics of a bygone era—or so we're told. But a close look at the data reveals a world that's just a fraction as integrated as the one we thought we knew. In fact, more than 90 percent of all phone calls, Web traffic, and investment is local. What's more, even this small level of globalization could still slip away. | **By Pankaj Ghemawat**

"Ideas will spread faster, leaping borders. Poor countries will have immediate access to information that was once restricted to the industrial world and traveled only slowly, if at all, beyond it. Entire electorates will learn things that once only a few bureaucrats knew. Small companies will offer services that previously only giants could provide. In all these ways, the communications revolution is profoundly democratic and liberating, leveling the imbalance between large and small, rich and poor." The global vision that Frances Cairncross predicted in her *Death of Distance* appears to be upon us. We seem to live in a world that is no longer a collection of isolated, "local" nations, effectively separated by high tariff walls, poor communications networks and mutual suspicion. It's a world that, if you believe the most prominent proponents of globalization, is increasingly wired, informed, and, well, "flat."

It's an attractive idea. And if publishing trends are any indication, globalization is more than just a powerful economic and political transformation; it's a booming cottage industry. According to the U.S. Library of Congress's catalog, in the 1990s, about 500 books were published on globalization. Between 2000 and 2004, there were more than 4,000. In fact, between the mid-1990s and 2003, the rate of increase in globalization-related titles more than doubled every 18 months.

Amid all this clutter, several books on the subject have managed to attract significant attention. During a recent TV interview, the first question I was asked—quite earnestly—was why I still thought the world was round. The interviewer was referring of course to the thesis of *New York Times* columnist Thomas L. Friedman's bestselling book *The World Is Flat.* Friedman asserts that 10 forces—most of which enable connectivity and collaboration at a distance—are "flattening" the Earth and leveling a playing field of global competitiveness, the likes of which the world has never before seen.

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ILLUSTRATIONS BY STEVE MCAFEE FOR *FP*

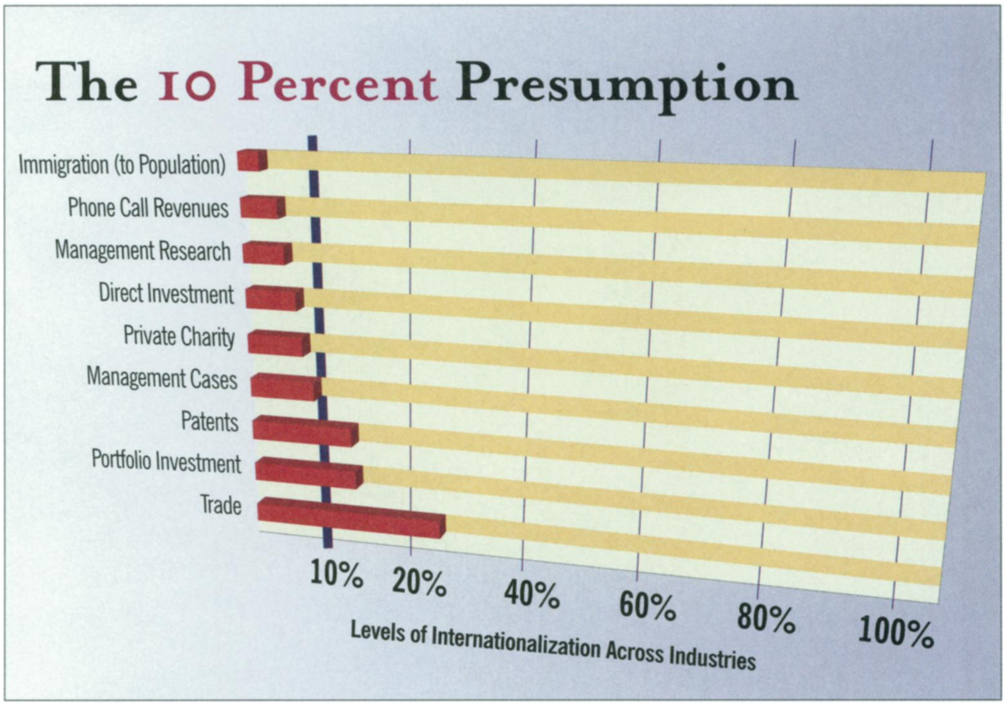
It sounds compelling enough. But Friedman's assertions are simply the latest in a series of exaggerated visions that also include the "end of history" and the "convergence of tastes." Some writers in this vein view globalization as a good thing—an escape from the ancient tribal rifts that have divided humans, or an opportunity to sell the same thing to everyone on Earth. Others lament its cancerous spread, a process at the end of which everyone will be eating the same fast food. Their arguments are mostly characterized by emotional rather than cerebral appeals, a reliance on prophecy, semiotic arousal (that is, treating everything as a sign), a focus on technology as the driver of change, an emphasis on education that creates "new" people, and perhaps above all, a clamor for attention. But they all have one thing in common: They're wrong.

In truth, the world is not nearly as connected as these writers would have us believe. Despite talk of a new, wired world where information, ideas, money, and people can move around the planet faster than ever before, just a fraction of what we consider globalization actually exists. The portrait that emerges from a hard look at the way companies, people, and states interact is a world that's only beginning to realize the potential of true global integration. And what these trend's backers won't tell you is that globalization's future is more fragile than you know.

THE 10 PERCENT PRESUMPTION

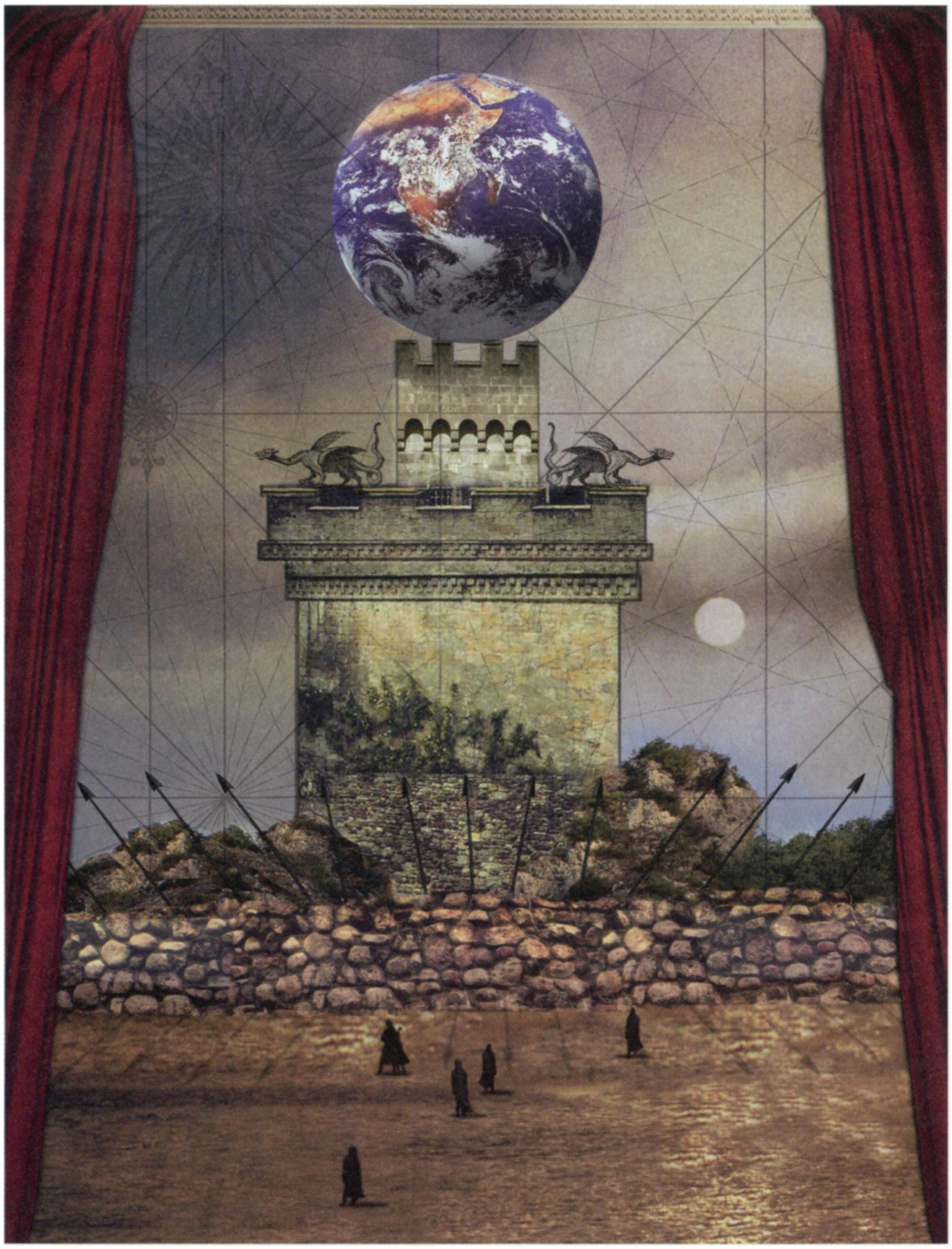
The few cities that dominate international financial activity—Frankfurt, Hong Kong, London, New York—are at the height of modern global integration; which is to say, they are all relatively well connected with one another. But when you examine the numbers, the picture is one of extreme connectivity at the local level, not a flat world. What do such statistics reveal? Most types of economic activity that could be conducted either within or across borders turn out to still be quite domestically concentrated.

One favorite mantra from globalization champions is how "investment knows no boundaries."



But how much of all the capital being invested around the world is conducted by companies outside of their home countries? The fact is, the total amount of the world's capital formation that is generated from foreign direct investment (FDI) has been less than 10 percent for the last three years for which data are available (2003–05). In other words, more than 90 percent of the fixed investment around the world is still domestic. And though merger waves can push the ratio higher, it has never reached 20 percent. In a thoroughly globalized environment, one would expect this number to be much higher—about 90 percent, by my calculation. And FDI isn't an odd or unrepresentative example.

As the chart above demonstrates, the levels of internationalization associated with cross-border migration, telephone calls, management research and education, private charitable giving, patenting, stock investment, and trade, as a fraction of gross domestic product (GDP), all stand much closer to 10 percent than 100 percent. The biggest exception in absolute terms—the trade-to-GDP ratio shown at the bottom of the chart—recedes most of the way back down toward 20 percent if you adjust for certain kinds of double-counting. So if someone asked me to guess the internationalization level of some activity about which I had no particular information, I would guess it to be much closer to 10 percent—the average for the nine categories of data in the chart—than to 100 percent. I call this the "10 Percent Presumption."



More broadly, these and other data on cross-border integration suggest a semi-globalized world, in which neither the bridges nor the barriers between countries can be ignored. From this perspective, the most astonishing aspect of various writings on globalization is the extent of exaggeration involved. In short, the levels of internationalization in the world today are roughly an order of magnitude lower than those implied by globalization proponents.

A STRONG NATIONAL DEFENSE

If you buy into the more extreme views of the globalization triumphalists, you would expect to see a world where national borders are irrelevant, and where citizens increasingly view themselves as members of ever broader political entities. True, communications technologies have improved dramatically during the past 100 years. The cost of a three-minute telephone call from New York to London fell from $350 in 1930 to about 40 cents in 1999, and it is now approaching zero for voice-over-Internet telephony. And the Internet itself is just one of many newer forms of connectivity that have progressed several times faster than plain old telephone service. This pace of improvement has inspired excited proclamations about the pace of global integration. But it's a huge leap to go from predicting such changes to asserting that declining communication costs will obliterate the effects of distance. Although the barriers at borders have declined significantly, they haven't disappeared.

To see why, consider the Indian software industry—a favorite of Friedman and others. Friedman cites Nandan Nilekani, the CEO of the second-largest such firm, Infosys, as his muse for the notion of a flat world. But what Nilekani has pointed out privately is that while Indian software programmers can now serve the United States from India, access is assured, in part, by U.S. capital being invested—quite literally—in that outcome. In other words, the success of the Indian IT industry is not exempt from political and geographic constraints. The country of origin matters—even for capital, which is often considered stateless.

Or consider the largest Indian software firm, Tata Consultancy Services (TCS). Friedman has written at least two columns in the *New York Times* on TCS's

Latin American operations: "[I]n today's world, having an Indian company led by a Hungarian-Uruguayan servicing American banks with Montevidean engineers managed by Indian technologists who have learned to eat Uruguayan veggie is just the new normal," Friedman writes. Perhaps. But the real question is why the company established those operations in the first place. Having worked as a strategy advisor to TCS since 2000, I can testify that reasons related to the tyranny of time zones, languages, and the need for proximity to clients' local operations loomed large in that decision. This is a far cry from globalization proponents' oft-cited world in which geography, language, and distance don't matter.

Trade flows certainly bear that theory out. Consider Canadian-U.S. trade, the largest bilateral relationship of its kind in the world. In 1988, before the North American Free Trade Agreement (NAFTA) took effect, merchandise trade levels between Canadian provinces—that is, within the country—were estimated to be 20 times as large as their trade with similarly sized and similarly distant U.S. states. In other words, there was a built-in "home bias." Although NAFTA helped reduce this ratio of domestic to international trade—the home bias—to 10 to 1 by the mid-1990s, it still exceeds 5 to 1 today. And these ratios are just for merchandise; for services, the ratio is still several times larger. Clearly, the borders in our seemingly "borderless world" still matter to most people.

Geographical boundaries are so pervasive, they even extend to cyberspace. If there were one realm in which borders should be rendered meaningless and the globalization proponents should be correct in their overly optimistic models, it should be the Internet. Yet Web traffic within countries and regions has increased far faster than traffic between them. Just as in the real world, Internet links decay with distance. People across the world may be getting more connected, but they aren't connecting with each other. The average South Korean Web user may be spending several hours a day online—connected to the rest of the world in theory—but he is probably chatting with friends across town and e-mailing family across the country rather than meeting a fellow surfer in Los Angeles. We're more wired, but no more "global."

Just look at Google, which boasts of supporting more than 100 languages and, partly as a result, has recently been rated the most globalized Web site. But Google's operation in Russia (cofounder Sergey Brin's native country) reaches only 28 percent of the market there, versus 64 percent for the Russian market leader in search services, Yandex, and 53 percent for Rambler.

Indeed, these two local competitors account for 91 percent of the Russian market for online ads linked to Web searches. What has stymied Google's expansion into the Russian market? The biggest reason is the difficulty of designing a search engine to handle the linguistic complexities of the Russian language. In addition, these local competitors are more in tune with the Russian market, for example, developing payment methods through traditional banks to compensate for the dearth of credit cards. And, though Google has doubled its reach since 2003, it's had to set up a Moscow office in Russia and hire Russian software engineers, underlining the continued importance of physical location. Even now, borders between countries define—and constrain—our movements more than globalization breaks them down.

TURNING BACK THE CLOCK

If globalization is an inadequate term for the current state of integration, there's an obvious rejoinder: Even if the world isn't quite flat today, it will be tomorrow. To respond, we have to look at trends, rather than levels of integration at one point in time. The results are telling. Along a few dimensions, integration reached its all-time high many years ago. For example, rough calculations suggest that the number of long-term international migrants amounted to 3 percent of the world's population in 1900—the high-water mark of an earlier era of migration—versus 2.9 percent in 2005.

Along other dimensions, it's true that new records are being set. But this growth has happened only relatively recently, and only after long periods of stagnation and reversal. For example, FDI stocks divided by GDP peaked before World War I and didn't return to that level until the 1990s. Several economists have argued that the most remarkable development over the long term was the declining level of internationalization between the two World Wars. And despite the records being set, the current level of trade intensity falls far short of completeness, as the Canadian-U.S. trade data suggest. In fact, when trade economists look at these figures, they are amazed not at how much trade there is, but how little.

It's also useful to examine the considerable momentum that globalization proponents attribute to the constellation of policy changes that led many countries—particularly China, India, and the former Soviet Union—to engage more extensively with the international economy. One of the better-researched descriptions of these policy changes and their implications is provided by economists Jeffrey Sachs and Andrew Warner:

"The years between 1970 and 1995, and especially the last decade, have witnessed the most remarkable institutional harmonization and economic integration among nations in world history. While economic integration was increasing throughout the 1970s and 1980s, the extent of integration has come sharply into focus only since the collapse of communism in 1989. In 1995, one dominant global economic system is emerging."

Yes, such policy openings are important. But to paint them as a sea change is inaccurate at best. Remember the 10 Percent Presumption, and that integration is only beginning. The policies that we fickle humans enact are surprisingly reversible. Thus, Francis Fukuyama's *The End of History*, in which liberal democracy and technologically driven capitalism were supposed to have triumphed over other ideologies, seems quite quaint today. In the wake of Sept. 11, 2001, Samuel Huntington's *Clash of Civilizations* looks at least a bit more prescient. But even if you stay on the economic plane, as Sachs and Warner mostly do, you quickly see counterevidence to the supposed decisiveness of policy openings. The so-called Washington Consensus around market-friendly policies ran up against the 1997 Asian currency crisis and has since frayed substantially—for example, in the swing toward neopopulism across much of Latin America. In terms of economic outcomes, the number of countries—in Latin America, coastal Africa, and the former Soviet Union—that have dropped out of the "convergence club" (defined in terms of narrowing productivity and structural gaps vis-à-vis

We have to entertain the possibility that globalization may be incompatible with national sovereignty—especially given voters' tendency to support more protectionism.

the advanced industrialized countries) is at least as impressive as the number of countries that have joined the club. At a multilateral level, the suspension of the Doha round of trade talks in the summer of 2006—prompting *The Economist* to run a cover titled "The Future of Globalization" and depicting a beached wreck—is no promising omen. In addition, the recent wave of cross-border mergers and acquisitions seems to be encountering more protectionism, in a broader range of countries, than did the previous wave in the late 1990s.

Of course, given that sentiments in these respects have shifted in the past 10 years or so, there is a fair chance that they may shift yet again in the next decade. The point is, it's not only possible to turn back the clock on globalization-friendly policies, it's relatively easy to imagine it happening. Specifically, we have to entertain the possibility that deep international economic integration may be inherently incompatible with national sovereignty—especially given the tendency of voters in many countries, including advanced ones, to support more protectionism, rather than less. As Jeff Immelt, CEO of GE, put it in late 2006, "If you put globalization to a popular vote in the U.S., it would lose." And even if cross-border integration continues on its upward path, the road from here to there is unlikely to be either smooth or straight. There will be shocks and cycles, in all likelihood, and maybe even another period of stagnation or reversal that will endure for decades. It wouldn't be unprecedented.

The champions of globalization are describing a world that doesn't exist. It's a fine strategy to sell books and even describe a potential environment that may someday exist. Because such episodes of mass delusion tend to be relatively short-lived even when they do achieve broad currency, one might simply be tempted to wait this one out as well. But the stakes are far too high for that. Governments that buy into the flat world are likely to pay too much attention to the "golden straitjacket" that Friedman emphasized in his earlier book, *The Lexus and the Olive Tree*, which is supposed to ensure that economics matters more and more and politics less and less. Buying into this version of an integrated world—or worse, using it as a basis for policymaking—is not only unproductive. It is dangerous. FP

Want to Know More?

For more of Pankaj Ghemawat's writings on the state of global integration and business strategy, see his Web site, **Ghemawat.org**. His book ***Global Strategies in a World of Differences*** (Boston: Harvard Business School Press) is due to be published in September.

For a glimpse into the worldview of globalization proponents, there's no better stand-in for the genre than Thomas L. Friedman's ***The World Is Flat: A Brief History of the Twenty-First Century*** (New York: Farrar, Straus and Giroux, 2005), or his Pulitzer Prize-winning foreign affairs column in the *New York Times*. To read more on the inevitability of technological advancement, see Frances Cairncross's ***The Death of Distance: How the Communications Revolution Will Change Our Lives*** (Boston: Harvard Business School Press, 1997).

The Economist offers a harsh critique of Friedman's analysis in **"Confusing Columbus"** (March 31, 2005), and Richard Florida offers his take on the state of globalization in **"The World Is Spiky"** (*The Atlantic*, October 2005).

For the latest installment of FOREIGN POLICY and A.T. Kearney's measurement of the world's most integrated nations, see the sixth annual **"Globalization Index"** (November/December 2006). In **"How Globalization Went Bad"** (FOREIGN POLICY, January/February 2007), Steven Weber, Naazneen Barma, Matthew Kroenig, and Ely Ratner explore the hidden dangers of a world whose integration relies on a single superpower.

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Integrated Assessment
2003, Vol. 4, No. 3, pp. 137–144

1389-5176/03/0403-137$16.00

The Globalisation Timeline

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ABSTRACT

Globalisation is a complex phenomenon; it is the interactive co-evolution of millions of technological, cultural, economic, social and environmental trends at all conceivable spatiotemporal scales. Given this complexity, any attempt to give a satisfactory definition of globalisation is doomed to failure. Rather, it makes sense to take a pluralistic approach, analysing past and current processes taking place in multiple domains. In this paper we therefore identify key historical landmarks of economic, political, technological, social-cultural, and environmental developments that have pushed the process of globalisation further. Using the globalisation timeline prevents a simplification of the complexities involved in approaching globalisation, while allowing a flexible definition of contemporary globalisation.

Keywords: Globalisation, timeline, pluralistic approach.

1. INTRODUCTION

Nowadays, globalisation seems to be the topic of fierce debates, protests and even violent confrontations between alleged anti-globalists and national governments. The massive protests against globalisation became visible for the first time during the World Trade Organisation (WTO) summit in Seattle (December 1999). The massive protest in Seattle became the starting-signal for more protests any time the WTO, World Bank, G8, or multinationals were to meet somewhere – as became apparent in Quebec, Geneva, Göteborg, and Genoa. Although the anti-globalist movement was initially portrayed as a bunch of rioting teenagers, there has been a gradually growing awareness that this protest movement is quite heterogeneous. It consists of various groups of people that do not all share the same vision. Some are against globalisation in its current form, which they claim is predominantly capitalist in character, whereas others do not contest a capitalist-orientated globalisation as such, but want a more democratic and equal distribution of the benefits of globalisation.

However, in the whole discussion about globalisation hardly anybody seems to deny the phenomenon as such. Apparently, it is widely accepted that we are living in a globalising world. The debates and protests focus mostly on how globalisation should be defined, and how it should be directed – if it can be directed at all. Interestingly, globalisation became a hot topic from the late 1980s on, but hardly anybody mentioned it in the early 1980s, which brings us to the question why globalisation is such a hot issue now, but not twenty years ago?

There are three dominant views in historical analyses of globalisation: a sceptical approach, a hyperglobalist approach, and the transformationalist thesis [1]. Those who follow the sceptical line argue that internationalisation and global connections are by no means new phenomena. The globalisation sceptics place cultural, economic, political, social, and technological developments on an evolutionary line, implying that globalisation has existed for centuries and that the sum of developments only changes the scale and scope of globalisation, but not the intrinsic characteristics of the phenomenon itself. The hyperglobalist approach, on the other hand, does not deny the importance of previous developments, but identifies a historical break-point after which contemporary globalisation emerged. The previous eras are described as pre-globalisation, or periods of internationalisation. The followers of the transformationalist thesis radicalize the hyperglobalist approach by arguing that globalisation itself is the major force underlying the rapid, widespread social, political, and economic changes that are currently reshaping and reconstituting modern societies and the world order [1].

Each of these perspectives on globalisation emphasizes different factors as the key elements behind the contemporary impact of this phenomenon. Moreover, each vision presupposes a different definition of globalisation. In this

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paper we argue that, instead of attempting to define and determine globalisation by emphasising particular factors, it would be more useful to adopt a multi-dimensional, pluralistic approach. This would prevent a simplification of the complexities involved in approaching globalisation, while permitting a flexible definition of contemporary globalisation.

It is evident that globalisation has not appeared out of the blue. By understanding the type of factors and events that shaped globalisation, we shall be able to gain a better understanding of the overall context of the contemporary discussions about globalisation. In this paper we therefore describe globalisation by identifying key landmarks of economic, political, technological, social-cultural, and environmental developments that have pushed the process of globalisation further over a relatively short time span in several societal domains. As such, we identify five different types of aspects that underlie, or interrelate to globalisation, namely: capitalism, technology, politics, social, and cultural life. We have restricted the number of key landmarks for the sake of clarity. This is not to say that other factors, events, processes and developments do not influence globalisation, or would not be appropriate key landmarks. The selection of key landmarks that underlie globalisation serves merely as an illustration of our multi-dimensional, pluralistic approach.

2. CAPITALISM AS A STARTING POINT OF GLOBALISATION

In current debates on globalisation, fierce controversies exist about the historical dating of the phenomenon [15]. Some globalisation sceptics argue that the Industrial Revolution was the breeding ground for globalisation, while others point at the period of European colonialism that started on 12th October 1492 when Columbus discovered America. This was the era when Vasco de Gama sailed around the Cape of Good Hope and the Spanish conquistadors conquered Latin America.

In contrast to the different views on the historical dating of globalisation, most historical (sceptical) analyses of globalisation, as well as hyperglobalist and transformationalist descriptions, acknowledge that globalisation is driven by economic incentives. As Michael Hardt and Antonio Negri point out in their book *Empire* [14] globalisation can be distinguished from previous periods because it is founded on capitalism rather than international trading.

Capitalism is concerned with the accumulation of capital through a production system in which labour adds surplus value to the product (Marx, 1912. *Capital: A Critical Analysis of Capitalist Production*. London). Only labour that adds a monetary value during the production process is considered to be productive, whereas other economic systems make no distinction between productive and non-productive labour. "Only labour that generates material or nonmaterial use value is produced according to the content" [2]. Because labour adds value to the capital employed, it is possible to accumulate capital by using productive labour. Wage labour, *viz.*, receiving a monetary reward instead of goods or services, did not exist in previous economic systems on such a large scale.

Another characteristic that distinguishes capitalism from other economic systems is related to non-productive accumulation by reinvestment of capital [3]. Previous economic systems were not characterised by capital investment and insurance on such a large scale. Surplus money was usually saved or spent on prestigious buildings or works of art, such as churches, paintings and jewellery, rather than being reinvested.

If one takes the difference between capitalism and previous economic systems into account, it is improbable that globalisation could be dated back before the emergence of capitalism. For example, the establishment and expansion of the first global trade networks of the Dutch and English colonial trading companies would not have been possible without a system of capital reinvestment, private ownership, and commercial insurance. Following this line of argumentation, two historical (key) landmarks can be identified that eluded the predevelopment phase of globalisation (see Fig. 1). The first historical landmark is the discovery of America, which symbolises the inception of colonialism. As a second key landmark, the emergence of the first multinational could be identified as a symbol of the early establishment of capitalism as the world's dominant economic system. This happened on 20th March 1602 when the Dutch United East Indies Company (VOC) was founded. This trade organisation not only operated internationally, it also consisted of more than a hundred trading vessels and employed thousands of people, working in various areas of the globe.

3. TECHNOLOGICAL INNOVATION AS A FORCE OF GLOBALISATION

Technological innovations – in particular innovations in transport and communications technology – form a second primary foundation of globalisation. According to Langhorne, the first juncture of globalisation can be dated back to the second stage of the Industrial Revolution, with James Watt's invention of the steam engine in 1765. Langhorne distinguishes three phases of technological innovation that enforced the process of globalisation.

The first phase is characterised by the application of the steam engine to land and sea transport, and the invention of the electric telegraph. Steamboats and steam locomotives decreased transportation time and increased transport volumes. The steamship was introduced in 1807, whereas the first successful test of a steam locomotive had to wait until 1825. The construction of railroads connected cities,

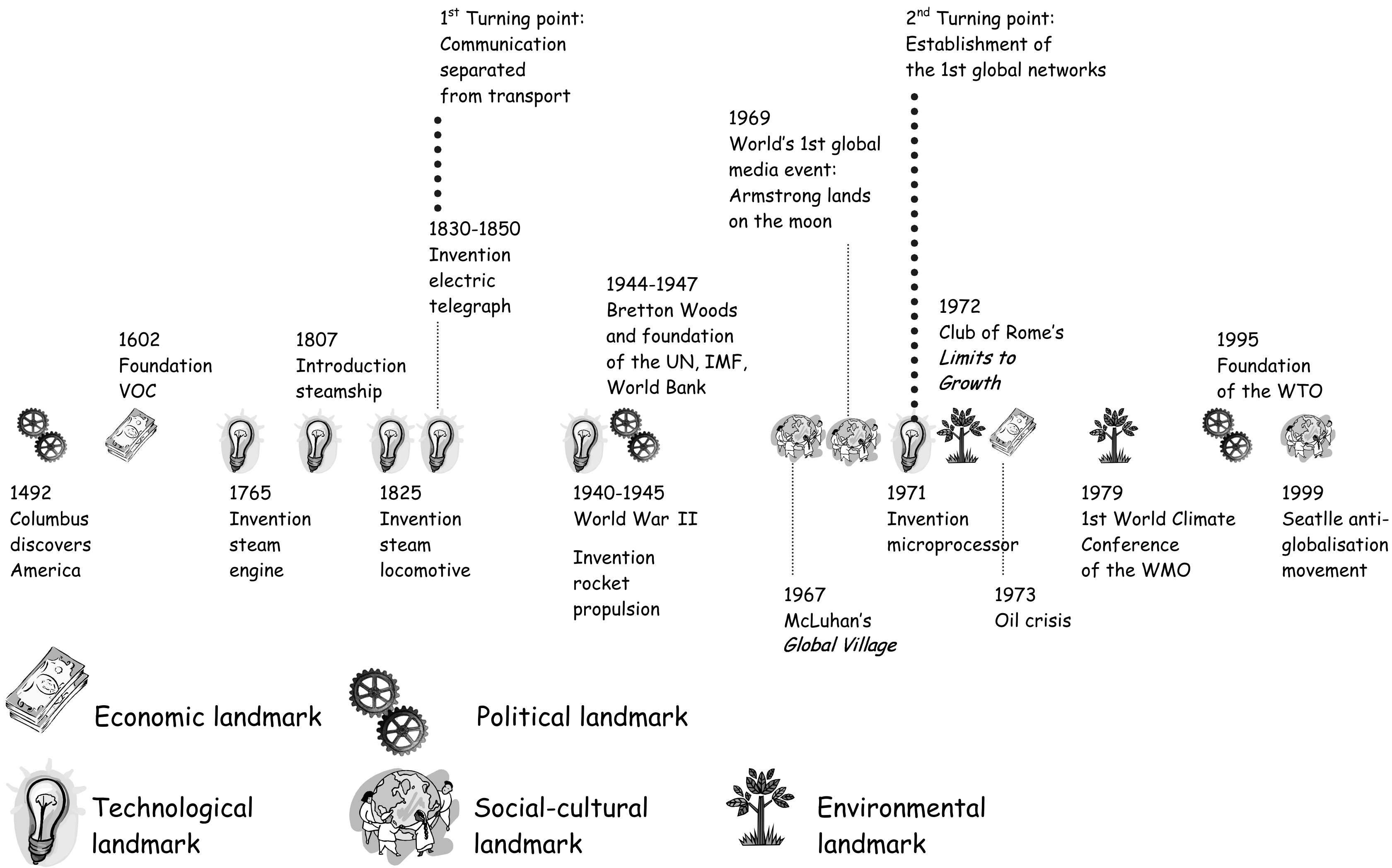

Fig. 1. The globalisation timeline (not exhaustive).

regions, nations and continents to each other, accelerating the pace of transportation. Additionally, it increased the scope of industrial activities, the geographical range and quantity of goods and people transported. It also made the distribution of information quicker and easier. The invention and improvement of the electric telegraph by Gauss, Weber, and Morse between 1830 and 1850 separated the speed of communication from transportation for the first time. This represents a historical turning point in the development of globalisation, since distances in space and time decreased significantly as a result of this invention. It enabled nation states to react and to learn more quickly from the events that occurred in their national territory, including remote areas. When the first transatlantic telegraph cable was laid in 1865, it also speeded up international communication. The invention of the telephone and automobile further increased this process by which the nation state increased its control over its territory [4]. This technological empowerment of the nation state led to a homogenisation between different regions within the nation's territory. Examples of this are the introduction of standardised clock times and national newspapers. Although this phase had its most profound impact on the nation state, it made international trade and contacts easier. As a consequence of the technological homogenisation processes, the nation states opened up trade to larger geographical units than before. In addition, international standards, such as Greenwich Mean Time, were introduced, which improved timetabling and communication for international activities [5].

The second phase began during the Second World War when German engineers working on the V2-project invented rocket propulsion. After the War, the fierce technological competition between the USSR and US led to an acceleration in the pace at which of rocket and satellite technology was developed. The technological ability to launch rockets into space made it possible to install orbiting satellites around the globe. When sufficient satellites were circling around the globe, a global, reliable communication system could be set up for the first time in human history. Although international telephone communication was possible before, the connections were usually of poor quality. The widespread use of the telephone was therefore mostly limited to national boundaries. The introduction of satellite communication improved international communication [4].

The last phase is the invention of the computer. Although the computer was invented as early as 1942, the capacities of the first computer hardly exceeded the ability of an ordinary calculator. However, the invention of the microchip in 1971 by Intel increased the speed, processing volume and efficiency of computers. Similar to the introduction of the electric telegraph, the invention of the microchip can be considered a major turning point in the development of globalisation. The microchip forms the core of contemporary information and communication technologies. The development of information and communication technologies has led to a similar revolution, reducing distances in space and time, as the electric telegraph did more than a century ago [6, 7]. Further innovations and applications of the microchip have led to the emergence and global use of the Internet and other computer communication systems. More importantly, the invention of computer technology and the microchip made it possible to construct global data networks that function as the hardware of the global financial capital market. According to Langhorne, the invention of the computer and its widespread application characterise the current phase of globalisation.

Other technological developments that should not be ignored are innovations in transport technology, such as container transport and passenger aircraft. Since the end of Second World War, the numbers of people and quantities of goods that move around the globe have increased dramatically. Although the rapid growth of international passenger flights and transport increased over a longer time span, a concentration of growth can be discerned in the 1970s. Coincidentally, this is also the same period as that when the microchip was introduced.

Although Langhorne provides us with a convincing analysis of the role of technology in the process of globalisation, his argument is rather technologically deterministic. By strongly stressing the role of technology, Langhorne underilluminates other factors and domains that also play a key role in the process.

4. POLITICAL DIMENSIONS OF GLOBALISATION

Although the interaction between the emergence of capitalism and technological innovation formed the foundation of globalisation, political dimensions cannot be ignored either. Globalisation is importantly a political process, since governments may shape or limit possibilities for private entrepreneurship. For example, by the mid-nineteenth century, Great Britain was the main political and economic power that adhered to laissez-faire and free trade politics. This political course led to an expansion of international economic activities. As a result, other countries, such as the Netherlands, also shifted towards free trade politics. This led to an increase not only of GDPs, but also of the Global Gross Domestic Product (GGDP). In addition international production chains and networks expanded, leading to the emergence of a world economy [8].

However, after the First World War, most national economies had to be rebuilt. Due to the War, most national governments had to focus on establishing strong national economies and decreasing economic dependency. Mines, railways, and power stations were nationalised, tariff barriers were raised to protect the national economy, and various restrictions were placed on financial transactions and speculations. In particular, this process of economic nationalisation took place after the Second World War when the Bretton

Woods agreement placed several restrictions on financial transactions and speculation, and the amount of national liquidity was coupled to the gold stocks held by national banks.

However, at the same time, many governments realised that international co-operation was necessary to prevent another World War. Although international organisations were not a new phenomenon (e.g., the International Telecommunication Union (1865), the International Telegraph Union and Universal Postal Union (1874)), many influential international and supranational organisations were founded shortly after the Second World War. The United Nations (UN) was founded in 1945. Just before the establishment of the UN, most industrialised countries had signed the Bretton Woods agreement of 1944. This agreement led to emergence of an international monetary political system.

In 1946 the International Monetary Fund (IMF) was founded, followed shortly thereafter by the establishment of the General Agreement on Tariffs and Trade (GATT) and the World Bank in 1947. In addition, the establishment of the European Economic Community (EEC) in 1957, the Organization of Petroleum Exporting Countries (OPEC) in 1960 and the Organisation of Economic Co-operation and Development (OECD) in 1961 also increased and intensified international and supranational political and economic co-operation.

It was not only economic and political power-related issues that enforced the process of global politics. The foundation of the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 1945, and the United Nations International Children's Emergency Fund (UNICEF) in 1946 (permanent status in 1952), as well as the emergence of various international NGOs, such as Amnesty International in 1961 and Greenpeace in 1970, drew international attention to social, cultural and environmental issues, such as human rights and global climate change. The establishment of these international and supranational organisations are important factors underlying the emergence of global social, cultural and environmental politics, such as the Rio Conference on Global Environmental Change in 1992.

The political dimensions of globalisation should not be overestimated, though. Nowadays, many national governments are more or less forced to adapt their policies to the neoliberal ideologies that collide with the dynamics of global capitalism. At an individual level, nation-states have considerably less influence on globalisation than other factors may have. One should thus be cautious about laying too much emphasis on the political dimensions of globalisation.

5. THE SOCIAL AND CULTURAL ASPECTS OF GLOBALISATION

So far we have mainly discussed economic, political and technological factors as the driving forces of globalisation. However, the late 1960s also witnessed remarkable social-cultural changes. The emerge of the flower-power generation, anti-Vietnam protests, the sexual revolution, the movements for the emancipation of women, blacks, gays, and minorities represent only the tip of the iceberg. In addition, the emergence of pop art marked the change to a post-modern culture [7]. Moreover, the publication of Marshall McLuhan's *The Medium is the Massage* in 1967 in which he described the world as becoming a 'global village,' is one of the first social-cultural landmarks that points at the existence of globalisation. Taking these aspects into account it is not possible to consider globalisation as purely an economic, political or technological process.

The increased influence of the media in our daily life has not only changed our way of perceiving the world and our consumption, it has also affected local cultures to a considerable degree. In the view of the cultural pessimists, America and in particular Hollywood have established a global culture at the cost of traditional ones [9]. However, youth all over the world especially embraces this culture, emphasising the freedom of choice that this global culture advocates.

The introduction of the television in the 1950s, for example, has had a profound impact on people's daily lives. But the invention of information and communication technologies has also influenced a lot of people's lives with the introduction of e-mail and chat boxes. As long as the technological facilities are available, personal communication between individuals is possible, regardless of the distance separating them. Although distances in time and space have decreased, the world has not only become smaller – new spaces, such as Internet, have simultaneously shaped new dimension in our life-world. It is no coincidence that Castells refers to our era as the information age [6]. The emerge of international and global media networks, such as BCC World, CNN or Al-Jazirah, but also national and local media connected to global media networks, provide us daily with news from all over the globe [10]. The world is increasingly becoming a global village because people's lives – despite their location in one place – are connected with other parts of the world through the media. The news of oppressed Afghan women in burkas does not leave us unaffected, whereas sixty years ago many of us would not even have known that Afghanistan existed.

At the local level, globalisation has not led just to an 'Americanisation' of traditional cultures, because globalisation has also increased interpersonal international cultural exchanges via migration, tourism or exchange studentship. Many homogeneous societies have turned into multicultural communities in which people from different cultural backgrounds live together.

However, the development towards a multicultural society is not without its problems. The current waxing of extreme right political parties, the segregation of cultures and even ethnic riots, illustrate the problematic side of social-cultural integration at a local level. In a world in which financial capital and many goods can be moved freely from one country to another, the tightening of immigration laws rather seems to be a 'de-globalisation.' Social-cultural factors therefore not only change as a result of globalisation, they can be causes, as well as obstacles in the process of globalisation.

However, in finding explanations for increasing social, cultural, and ethnic tensions between various groups, one easily risks analysing such developments from a culturally deterministic viewpoint. In many cases, social economic factors also play a crucial role: consider unemployment, the emergence of ghettos, and many other factors.

6. GLOBALISATION AND THE ENVIRONMENT

Globalisation as a whole does not by definition have a negative effect on the environment. However, previous and current facets that constitute globalisation, such as the expansion and intensification of air traffic, car, truck and sea transport, waste, increased consumption of water and fossil energy, caused by the production and consumption of commodities, have profound impacts on our natural environment. These processes affect the environment on various scales, ranging from the local to the global. For instance, the demand for hardwood in developed countries, such as Japan and the Netherlands, is leading to deforestation, soil impoverishment and a loss of local biodiversity in other parts of the world, such as Brazil and Indonesia. The effect of local deforestation does not always remain local, but can also have regional, or even global effects (e.g., global climate change). Although global disasters have not yet occurred, major changes in the natural environment, caused by the polluting side effects of (global) economic processes and consumerism, are affecting our world. On the local and regional level this becomes apparent through soil impoverishment, desertification, water and air pollution. The United Nations High Commissioner for Refugees (UNHCR) is already speaking of refugees who have fled from their homes because of environmental disasters [11].

Since the publication of Meadows' *The Limits to Growth* for the Club of Rome in 1972, there has been a growing awareness of the exhaustion of the natural environment through human activities on local, regional and global levels. In addition, from the late 1970s on, global warming became an environmental problem of global political and scientific concern [12]. As historical marks, the publication of *The Limits to Growth*, the first World Climate Conference organised by the World Meteorological Organisation (WMO), and the UN Conference on Environment and Development in Rio de Jañeiro in 1992 symbolise the growing concern about the devastation of the global environment, driven by the processes of globalisation described in the previous sections.

Although environmental factors should not be ignored when analysing globalisation, they do differ from the other dimensions of globalisation. In contrast to the other dimensions, environmental factors usually appear to be the consequence of globalisation, rather than a driving force. However, many environmental factors, such as global climate change, might become driving forces in the future. Consider, for example, an increase in the numbers of ecological refugees.

7. GLOBALISATION FRAMED BY ITS TIMELINE

Looking at the various historical landmarks of globalisation, we see a clustering in time of various developments (see Fig. 1). These clusters might point us to processes in which various factors enforce each other and consequently push the process of globalisation further. Thus, identifying these clusters can help us to identify different phases of the globalisation process. This is not to say that globalisation is an evolutionary process, evolving according to a fixed pattern. However, taking the extensiveness, intensity, velocity and the impact of contemporary globalisation into account, it is legitimate to assume that the processes underlying it have the potential to change over time, in a nonlinear way, characterised by periods of progress, stabilisation, and temporary decline.

The thick dotted lines in Figure 1 illustrate new phases, or major turning points in the globalisation process. Note that the time span between the historical landmarks is relatively small in the late 1960s and early 1970s. The second turning point illustrates the change towards contemporary globalisation, because this period was also characterised by a high concentration of social, cultural and environmental developments that also became important factors that co-shaped globalisation.

Taking this into account, two definitions of globalisation are possible. If we approach globalisation by reconstructing and identifying historical landmarks before the second turning point, we see that the landmarks are predominantly economic, political or technological in character. Hence, from a historical point of view, globalisation is intrinsically an economic, political and technological process. However, this definition refers to the emergence of globalisation and not to its current state.

From the 1960s on, social-cultural developments have become similar key factors in the constitution of globalisation. Therefore, the historical definition of globalisation would be incomplete in contemporary contexts. Consequently, we propose a contemporary definition of globalisation that accurately describes its current state. The difference between the historical process of globalisation and its current state is too complex to be reduced to a single definition. The use of a historical and contemporary definition thus prevents a simplification of the complexities involved in approaching globalisation. Above all, the historical development of globalisation is not the same as the actual phenomenon in its current phase, just as the introduction of the steam engine is not the same as the introduction of the steam locomotive.

The second definition of globalisation thus refers to this process in its current state, including social, cultural and environmental factors. Hence, we define contemporary globalisation as an intensification of cross-national cultural, economic, political, social and technological interactions that lead to the establishment of transnational structures and the global integration of cultural, economic, environmental, political and social processes on global, supranational, national, regional and local levels.

8. DISCUSSION

Describing globalisation remains a complex task; it is the interactive co-evolution of millions of technological, cultural, economic, social and environmental trends at all conceivable spatio-temporal scales. Despite the controversies about the exact forces and the historical path that led to globalisation, we have shown that the major forces at stake are economic, political and technological. This does not imply that social, cultural and environmental factors are not important, but they are not always clearly distinguishable.

Furthermore, the boundaries between the various dimensions – which may better be referred to as domains – are not fixed. Rather, they are interconnected and interrelated, affecting each other in various ways. In Figure 2 we present a multi-domain model that illustrates the interrelations and interactions between various domains/dimensions of globalisation. In this model, technology occupies a mediating role, since the application, functioning and innovative impulses of technological developments are always an integrated part of economic, environmental, political and social-cultural practices. The widespread application of the Internet is a good example of this. While the Internet had its roots in the U.S. military, it became commercially attractive and as such changed into a mass medium.

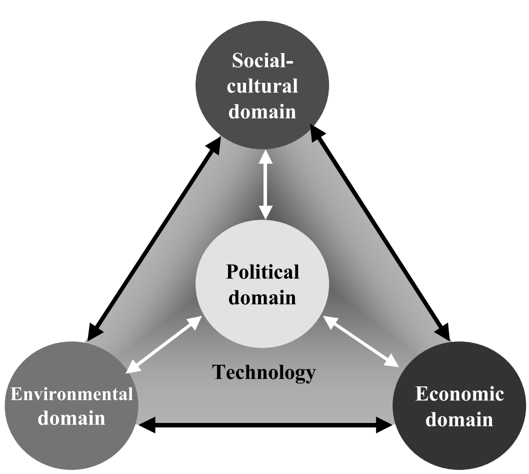

Fig. 2. A pluralistic approach to globalisation.

This multi-domain, plural approach enables us to perceive globalisation as a phenomenon, or an overarching process in which many different processes simultaneously take place in many domains. Consequently, we view the term globalisation as a collective label, instead as one giant process in itself [13]. After all, not all factors that underlie or shape globalisation, nor all the consequences of this process have yet been identified. Acknowledging the pluralistic character of the forces that drive globalisation and its consequences seems to be an essential step in describing this phenomenon.

Given this complexity, any attempt to define globalisation satisfactorily would be doomed to failure. Rather, it makes sense to adopt a pluralistic approach, analysing past and current processes taking place in multiple domains. Using the globalisation timeline and the multi-domain model prevents a simplification of the complexities involved in approaching globalisation, while permitting a flexible definition of contemporary globalisation.

ACKNOWLEDGEMENTS

We would like to thank all colleagues at the International Centre for Integrative Studies (ICIS) at Maastricht University for the fruitful discussions leading to this paper. This work is carried out within the Fulbright New Century Scholar Program 'Challenges of Health in a Borderless World,' and is partially financially supported by the Dutch National Institute of Public Health and the Environment (RIVM) within the project 'Globalisation, Environmental Change and Public Health'.

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The Great Globalization Debate: An Introduction

David Held and Anthony McGrew

Much has been made of the consequences for globalization of the cataclysmic events of 11 September 2001. Some observers have proclaimed the events mark the end of globalization, while others suggest they symbolize the beginning of the post-globalization era. As the reassertion of geopolitics and state power has come to dominate international responses to 11 September, it is tempting to conclude that globalization has now reached its historical limits. Such a conclusion, however, overlooks the manifold ways in which the very responses to the events are themselves products of, and conditional upon, a globalizing world. As Stanley Hoffmann has phrased it, the world after 11 September confronts not so much the end of globalization as a growing 'clash of globalizations' (Hoffmann 2002). Although the war on terrorism may have displaced it from the media spotlight, the great globalization debate continues apace, no longer just on the streets and in the academy but increasingly within the citadels of global power. Paradoxically, in the aftermath of the terrorist attacks on the United States – the principal architect and icon of a globalizing world – making sense of globalization, and its implications for the twenty-first-century world order, has become a more, rather than less, urgent intellectual and political task.

Although public references to globalization have become increasingly common over the last two decades, the concept itself can be traced back to a much earlier period. Its origins lie in the work of many nineteenth- and early twentieth-century intellectuals, from Saint-Simon and Karl Marx to students of geopolitics such as MacKinder, who recognized how modernity was integrating the world. But it was not until the 1960s and early 1970s that the term 'globalization' was actually used. This 'golden age' of rapidly expanding political and economic interdependence – most especially between Western states – generated much reflection on the inadequacies of orthodox approaches to thinking about politics, economics and culture which presumed a strict separation between internal and external affairs, the domestic and international arenas, and the local and the global. For in a more interdependent world events abroad readily acquired impacts at home, while developments at home had consequences abroad. In the context of a debate about the growing interconnectedness of human affairs, world systems theory, theories of complex interdependence and the notion of globalization itself emerged as largely rival accounts of the processes through which the fate of states and peoples was becoming more intertwined (Modelski 1972; Wallerstein 1974; Keohane and Nye 1977). Following the collapse of state socialism and the consolidation of capitalism worldwide, academic and public discussion of globalization intensified dramatically. Coinciding with the rapid spread of the information revolution, these developments appeared to confirm the belief that the world was fast becoming a shared social and economic space – at least for its most affluent inhabitants. However, whether the notion of globalization ultimately helps or hinders our understanding of the contemporary human condition, and strategies to improve it, is now a matter of intense intellectual and public controversy. In short, the great globalization debate has been joined.

Trying to make sense of this debate presents some difficulties, since there are no definitive or fixed lines of contestation. Instead, multiple conversations coexist (although few real dialogues), which do not readily afford a coherent or definitive characterization. Within shared traditions of social enquiry, whether neoclassical economics or world systems theory, no singular account of globalization has acquired the status of orthodoxy. On the contrary, competing assessments continue to frame the discussion. Nor do the dominant ideological traditions of conservatism, liberalism or socialism offer coherent readings of, or responses to, a globalizing era. Just as some conservatives and socialists find common ground in dismissing the significance of globalization, others of similar political persuasion view it as a dramatic new threat to cherished values, whether the nation or social democracy. Indeed, the very idea of globalization appears to disrupt established paradigms and political orthodoxies.

Accepting this heterogeneity, it is, nevertheless, feasible to identify a clustering of arguments around an emerging fissure between those who consider that contemporary globalization is a real and significant historical development – the *globalists* – and those who conceive it as a primarily ideological or social construction which has marginal explanatory value – the *sceptics*. Of course, as used here, the labels – globalists and sceptics – refer to ideal-type constructions. Ideal-types are heuristic devices which help order a field of enquiry and identify the primary areas of consensus as well as dispute. They assist in identifying the principal areas of contention and, thus, in establishing the fundamental points of disagreement. They provide an accessible way into the mêlée of voices – rooted in the globalization literature but by definition corresponding to no single work, author or ideological position.

Neither the sceptical nor the globalist thesis, of course, exhausts the complexity or the subtleties of the interpretations of globalization to be found in the existing literature. Even within each position, considerable differences of emphasis exist with respect to matters of historical interpretation as well as normative commitments. Such differences will become apparent throughout the volume. For in selecting the contributions, we have sought to represent fairly both positions in the debate, and also the diversity of views within these dominant schools. A further editorial principle has been the desire to reflect the richness of the different disciplinary contributions of social science in order that the essential interdisciplinarity of the debate is given proper exposure. Accordingly, each of the subsequent parts reflects a representative set of major contributions to the literatures on globalization, while further embellishing, as well as carefully qualifying, the characterization of the globalization debate described below.

In organizing the contributions to the debate, we have constructed the volume around the critical themes which are addressed in the globalist and sceptical literatures alike. Part I (Understanding Globalization) commences with an overview of the historical and conceptual debates surrounding the idea of globalization. Part II (Political Power and Civil Society: A Reconfiguration?) focuses on the controversy concerning the modern nation-state: its continued primacy versus its transformation. Building on this discussion, Part III (The Fate of National Culture in an Age of Global Communication) illuminates the debate about the cultural ramifications of globalization, particularly in respect of the question of national culture and identity. Parts IV (A Global Economy?) and V (Divided World, Divided Nations?) introduce the major contributions to the discussion concerning the nature of the contemporary global economy and its consequences for patterns of global inequality. Finally, with critical issues of social justice and world order to the fore, Part VI (World Orders, Normative Choices) considers the normative considerations raised in the globalization debate.

I Understanding Globalization

Globalization has been variously conceived as action at a distance (whereby the actions of social agents in one locale can come to have significant consequences for 'distant others'); time–space compression (referring to the way in which instantaneous electronic communication erodes the constraints of distance and time on social organization and interaction); accelerating interdependence (understood as the intensification of enmeshment among national economies and societies such that events in one country impact directly on others); a shrinking world (the erosion of borders and geographical barriers to socio-economic activity); and, among other concepts, global integration, the reordering of interregional power relations, consciousness of the global condition and the intensification of interregional interconnectedness (Harvey 1989; Giddens 1990; Rosenau 1990; Jameson 1991; Robertson 1992; Scholte 1993; Nierop 1994; Geyer and Bright 1995; Johnston et al. 1995; Zürn 1995; Albrow 1996; Kofman and Youngs 1996; Held et al. 1999). What distinguishes these definitions is the differential emphasis given to the material, spatio-temporal and cognitive aspects of globalization. It is worth dwelling initially on this tripartite cluster of characteristics as the first stage in clarifying the concept of globalization.

Defining globalization

Globalization has an undeniably material aspect in so far as it is possible to identify, for instance, flows of trade, capital and people across the globe. These are facilitated by different kinds of infrastructure – physical (such as transport or banking systems), normative (such as trade rules) and symbolic (such as English as a lingua franca) – which establish the preconditions for regularized and relatively enduring forms of global interconnectedness. Rather than mere random encounters, globalization refers to these entrenched and enduring patterns of worldwide interconnectedness. But the concept of globalization denotes much more than a stretching of social relations and activities across regions and frontiers. For it suggests a growing magnitude or intensity of global flows such that states and societies become increasingly enmeshed in worldwide systems and networks of interaction. As a consequence, distant occurrences and developments can come to have serious domestic impacts while local happenings can engender significant global repercussions. In other words, globalization represents a significant shift in the spatial reach of social relations and organization towards the interregional or intercontinental scale. This does not mean that the global necessarily displaces or takes precedence over local, national or regional orders of social life. Rather, the point is that the local becomes embedded within more expansive sets of interregional relations and networks of power. Thus, the constraints of social time and geographical space, vital coordinates of modern social life, no longer appear to impose insuperable barriers to many forms of social interaction or organization, as the existence of the World Wide Web and round-the-clock trading in global financial markets attests. As distance 'shrinks', the relative speed of social interaction increases too, such that crises and events in distant parts of the globe, exemplified by the events of 11 September 2001, come to have an immediate worldwide impact involving diminishing response times for decision-makers. Globalization thereby engenders a cognitive shift expressed both in a growing public awareness of the ways in which distant events can affect local fortunes (and vice versa) as well as in public perceptions of shrinking time and geographical space.

Simply put, globalization denotes the expanding scale, growing magnitude, speeding up and deepening impact of interregional flows and patterns of social interaction. It refers to a shift or transformation in the scale of human social organization that links distant communities and expands the reach of power relations across the world's major regions and continents. However, as the rise of the anti-globalization protests demonstrates, it should not be read as prefiguring the emergence of a harmonious world society or as a universal process of global integration in which there is a growing convergence of cultures and civilizations. Not only does the awareness of growing interconnectedness create new animosities and conflicts, it can fuel reactionary politics and deep-seated xenophobia. Since a significant segment of the world's population is either untouched directly by globalization or remains largely excluded from its benefits, it is arguably a deeply divisive and, consequently, vigorously contested process.

The myth of globalization

For the sceptics, the very concept is suspect: what, they ask, is the 'global' in globalization (Hirst 1997)? If the global cannot be interpreted literally, as a universal phenomenon, then the concept of globalization lacks specificity. With no identifiable geographical referents, how is it possible to distinguish the international or the transnational from the global, or, for that matter, processes of regionalization from processes of globalization? It is precisely because much of the literature on globalization fails to specify the spatial referents for the global that, so the sceptics argue, the concept becomes so broad as to become impossible to operationalize empirically and, therefore, misleading as a vehicle for understanding the contemporary world.

In interrogating the concept of globalization, sceptics generally seek to establish a conclusive test of the globalization thesis. For the most part this involves constructing an abstract or a priori model of a global economy, global culture or world society and assessing how far contemporary trends match up to it (Sterling 1974; Perlmutter 1991; Dore 1995; Boyer and Drache 1996; Hirst and Thompson 1996). Embedded in many such models is a conception of a globalized economy or global society as akin to a national economy or society writ large. Others critical of the globalist thesis seek to assess how far contemporary trends compare with what several economic historians have argued was the *belle époque* of globalization, namely the period from 1890 to 1914 (Gordon 1988; Jones 1995; Hirst 1997). In both cases, there is a strong presumption that the statistical evidence by itself can establish the 'truth' about globalization. In this regard, the sceptical analysis is decidedly dismissive of the descriptive or explanatory value of the concept of globalization. Rather than globalization, the sceptics conclude that a more valid conceptualization of current trends is captured by the terms 'internationalization' – that is, growing links between essentially discrete national economies or societies – and 'regionalization' or 'triadization' – the geographical clustering of cross-border economic and social exchanges (Ruigrok and Tulder 1995; G. Thompson 1998a; Weiss 1998; Hirst and Thompson 1999). This is an argument for the continuing primacy of territory, borders, place and national governments to the distribution and location of power, production and wealth in the contemporary world order. Yet a puzzle arises: namely, how to explain the disjuncture between the widespread discourse of globalization and the realities of a world in which, for the most part, the routines of everyday lives are still dominated by national and local circumstances?

Instead of providing an insight into the forces shaping the contemporary world, the concept of globalization, argue many sceptics, is primarily an ideological construction; a convenient myth which, in part, helps justify and legitimize the neoliberal global project, that is, the creation of a global free market and the consolidation of Anglo-American capitalism within the world's major economic regions (Callinicos et al. 1994; Gordon 1988; Hirst 1997; Hoogvelt 1997). In this respect, the concept of globalization operates as a 'necessary myth', through which politicians and governments discipline their citizens to meet the requirements of the global marketplace. It is, thus, unsurprising that discussion of globalization became so widespread just at that juncture when the neoliberal project – the Washington consensus of deregulation, privatization, structural adjustment programmes (SAPs) and limited government – consolidated its hold within key Western capitals and global institutions such as the IMF.

Frequently associated with this sceptical position is a strong attachment either to an essentially Marxist or to a realist ontology. Traditional Marxist analysis considers that capitalism, as a social order, has a pathological expansionist logic, since to maintain profits capital constantly has to exploit new markets. To survive, national capitalism must continuously expand the geographical reach of capitalist social relations. The history of the modern world order is the history of Western capitalist powers dividing and redividing the world up into exclusive economic zones. Today, it is argued, imperialism has acquired a new form as formal empires have been replaced by new mechanisms of multilateral control and surveillance, such as the G7 and World Bank. As such, the present epoch is described by many Marxists not in terms of globalization, but instead as a new mode of Western imperialism dominated by the needs and requirements of finance capital within the world's major capitalist states (Van der Pijl 1999).

Realism too presents the existing international order as constituted primarily by and through the actions of the mightiest economically and militarily powerful states (and their agents). Accordingly, the internationalization of economic or social relations is argued to be contingent upon the policies and preferences of the great powers of the day since only they have sufficient military and economic muscle to create and maintain the conditions necessary for an open (liberal) international order (Waltz 1979). Without the exercise of American power, so the argument suggests, the existing liberal world order, which underpins the recent intensification of international interdependence, would eventually collapse (Gilpin 1987). This leads to a further critical point; namely, that liberal orders are historically unlikely to endure, since, in a system in which states constantly struggle for dominance, the power of hegemonic states ultimately has a finite life. As many sceptics are wont to assert, without a hegemon to police a liberal system, as in the period 1919–39, a rush to autarky and the breakdown of world order will ensue (Gilpin 1981). International interdependence, according to this interpretation, is ultimately a temporary and contingent condition.

The globalist's response

The globalist account rejects the assertion that the concept of globalization can be simply dismissed either as a purely ideological or social construction or as a synonym for Western imperialism. While not denying that the discourse of globalization may well serve the interests of powerful social forces in the West, the globalist account also emphasizes that it reflects real structural changes in the scale of modern social organization. This is evident in, among other developments, the growth of MNCs, world financial markets, the diffusion of popular culture and the salience of global environmental degradation. Rather than conceiving globalization as a solely economic phenomenon, the globalist analysis gives equal status to the other key dimensions of social relations. This attachment to a differentiated or multidimensional conception of globalization reflects a Weberian and/or post-Marxist and post-structuralist understanding of social reality as constituted by a number of distinct institutional orders or networks of power: the economic, technological, political, cultural, natural, etc. (Mann 1986; Giddens 1990). To reduce globalization to a purely economic or technological logic is considered profoundly misleading since it ignores the inherent complexity of the forces that shape modern societies and world order. Thus, the globalist analysis commences from a conception of globalization as a set of interrelated processes operating across all the primary domains of social power, including the military, the political and the cultural. But there is no a priori assumption that the historical or spatial pattern of globalization within each of these domains is identical or even comparable. In this respect, patterns of cultural globalization, for instance, are not presumed necessarily to replicate patterns of economic globalization. The globalist account promotes a conception of globalization which recognizes this differentiation, allowing for the possibility that it proceeds at different tempos, with distinctive geographies, in different domains.

Central to this globalist conception is an emphasis on the particular spatial attributes of globalization. In seeking to differentiate global networks and systems from those operating at other spatial scales, such as the local or the national, the globalist analysis identifies globalization primarily with activities and relations which crystallize on an interregional or intercontinental scale (Geyer and Bright 1995; Castells 1996; Dicken 1998). This involves globalists in attempting to establish more precise analytical distinctions between the concept of globalization and the concepts of regionalization and localization, that is, the nexus of relations between geographically contiguous states, and the clustering of social relations within states, respectively (Dicken 1998).

This attempt to establish a more systematic specification of the concept of globalization is further complemented by the significance attached to its temporal or historical forms. Rather than trying to assess how contemporary global trends measure up to some abstract model of a globalized world, or simply comparing the magnitude of global flows between different epochs, the globalist account draws on established socio-historical modes of analysis. This involves locating contemporary globalization within what the French historian Braudel refers to as the perspective of the 'longue durée' – that is, very long-term patterns of secular historical change (Helleiner 1997).

As the existence of premodern world religions confirms, globalization is not only a phenomenon of the modern age. Making sense of contemporary globalization requires placing it in the context of secular trends of world historical development (Modelski 1972; Hodgson 1993; Mazlish and Buultjens 1993; Bentley 1996; Frank and Gills 1996; Clark 1997; Frank 1998). That development, as the globalist account also recognizes, is punctuated by distinctive phases – from the epoch of world discovery to the *belle époque* or the interwar years – when the pace of globalization appears to intensify or, alternatively, sometimes regress (Fernández-Armesto 1995; Geyer and Bright 1995). To understand contemporary globalization requires investigating what differentiates these discrete phases, including how such systems and patterns of global interconnectedness are organized and reproduced, their different geographies and histories, and the changing configuration of interregional power relations. Accordingly, the globalist account stretches the concept of globalization to embrace the idea of its distinctive historical forms. This requires an examination of how patterns of globalization, both within and between different domains of activity, compare and contrast over time.

This historicized approach encourages a conception of globalization as a somewhat indeterminate process; for globalization is not inscribed with a preordained logic which presumes a singular historical trajectory or end condition, that is, the emergence of a single world society or global civilization. In fact, teleological or determinist thinking is roundly rejected. Globalization, it is argued, is driven by a confluence of forces and embodies dynamic tensions. As noted earlier, the globalist analysis dismisses the presumption that globalization can be explained solely by reference to the imperatives of capitalism or technology (Axford 1995). Nor can it be understood as simply a projection of Western modernity across the globe (Giddens 1990). Rather, it is considered a product of multiple forces, including economic, political and technological imperatives, as well as specific conjunctural factors, such as, for instance, the creation of the ancient Silk Route or the collapse of state socialism. It harbours no fixed or given pattern of historical development. Moreover, since it pulls and pushes societies in different directions it simultaneously engenders cooperation as well as conflict, integration as well as fragmentation, exclusion and inclusion, convergence and divergence, order and disorder (Harvey 1989; Giddens 1990; Robertson 1992; Hurrell and Woods 1995; Rosenau 1997). Rejecting historicist or determinist interpretations of globalization, the globalist account invites an open-ended conception of global change rather than a fixed or singular vision of a globalized world. It is therefore equally valid to talk of a partially globalized world or processes of de-globalization.

Central to this globalist interpretation is, nonetheless, a conception of global change involving a significant reconfiguration of the organizing principles of social life and world order. Three aspects of this are identified in the globalist literature; namely, the transformation of dominant patterns of socio-economic organization, of the territorial principle, and of power. By eroding the constraints of space and time on patterns of social interaction, globalization creates the possibility of new modes of transnational social organization, for instance global production networks and regulatory regimes, while simultaneously making communities in particular locales vulnerable to global conditions or developments, as expressed in the events of 11 September 2001 and the responses to them.

In transforming both the context of, and the conditions for, social interaction and organization, globalization also involves a reordering of the relationship between territory and political space. Put simply, as economic, social and political activities increasingly transcend regions and national frontiers a direct challenge is mounted to the territorial principle of modern social and political organization. That principle presumes a direct correspondence between society, economy and polity within an exclusive and bounded national territory. Globalization disrupts this correspondence in so far as social, economic and political activity can no longer be understood as coterminous with national territorial boundaries. This does not mean that territory and place are becoming irrelevant, but rather that, under conditions of contemporary globalization, they are reinvented and reconstructed, that is, increasingly cast in a global context (Castells 1996; Dicken 1998). The latter point connects with the third and final aspect of the transformations identified in the globalist literature; namely, the transformation of power relations.

At the core of the globalist account lies a concern with power: its instrumentalities, configuration, distribution, and impacts. Globalization is taken to express the expanding scale on which power is organized and exercised. In this respect, it involves a reordering of power relations between and across the world's major regions such that key sites of power and those who are subject to them are literally oceans apart. To paraphrase Jameson, under conditions of contemporary globalization the truth of power no longer resides in the locales in which it is immediately experienced (Jameson 1991). Power relations are deeply inscribed in the dynamics of globalization, as the continuing disquisitions on its implications for the nation-state confirm.

II Political Power and Civil Society: A Reconfiguration?

Contemporary social life is associated with the modern state which specifies the proper form of nearly all types of human activity. The state appears to be omnipresent, regulating the conditions of life from birth registration to death certification. From the policing of everyday activities to the provision of education and the promotion of health care, the steady expansion of state power appears beyond question. Quantitatively, the growth of the state, from the size of its budget to the scope of its jurisdiction, is one of the few really uncontested facts of the twentieth century. On many fundamental measures of political power (for example, the capacity to raise taxes and revenues, the ability to hurl concentrated force at enemies) states are, at least throughout most of the OECD world, as powerful as, if not more powerful than, their predecessors (Mann 1997). The sceptics make a great deal of this, as they do of the rise and dominance of the modern state in general. It is useful to rehearse this position and its many implications for the form and distribution of political power, before examining the globalists' alternative account.

The formation and rule of the modern state

The claim of the modern state to an overarching role is a relatively novel one in human history, even in the place which gave birth to it – Western Europe. A thousand years ago, for example, an inhabitant of an English village knew little of life beyond it; the village was the beginning and practically the end of his or her world. She or he would have visited the nearest market town but would scarcely have ventured further; would have probably recognized the name of the king, although would rarely, if ever, have seen him; and may well have had more contact with representatives of the church than with any 'political' or military leaders (Lacey and Danziger 1999). And while five hundred years later two forms of political regime – absolute and constitutional monarchies – were beginning to crystallize across the European continent, Europe resembled more a mosaic of powers, with overlapping political claims and jurisdictions (Tilly 1975; Poggi 1978). No ruler or state was yet sovereign in the sense of being supreme over a bounded territory and population.

Modern states emerged in Western Europe and its colonial territories in the eighteenth and nineteenth centuries, although their origins date back to the late sixteenth century (Skinner 1978; Held 1995: chs 2–3). They distinguished themselves initially from earlier forms of political rule by claiming a distinctive symmetry and correspondence between sovereignty, territory and legitimacy. The distillation of the concept of sovereignty was pivotal to this development, for it lodged a special claim to the rightful exercise of political power over a circumscribed realm – an entitlement to rule over a bounded territory (see Skinner 1978). Modern states developed as nation-states – political bodies, separate from both ruler and ruled, with supreme jurisdiction over a demarcated territorial area, backed by a claim to a monopoly of coercive power, and enjoying legitimacy as a result of the loyalty or consent of their citizens. The major innovations of the modern nation-state – territoriality that fixes exact borders, monopolistic control of violence, an impersonal structure of political power and a distinctive claim to legitimacy based on representation and accountability – marked out its defining (and sometimes fragile) features. The regulatory power of such states expanded throughout the modern period creating – albeit with significant national differences – systems of unified rule across demarcated territories, centralized administration, concentrated and more effective mechanisms of fiscal management and resource distribution, new types of lawmaking and law enforcement, professional standing armies, a concentrated war-making capacity and, concomitantly, elaborate formal relations among states through the development of diplomacy and diplomatic institutions (P. Anderson 1974; Giddens 1985).

The consolidation of the power of leading European nation-states was part of a process in which an international society of states was created, first in Europe itself, and then, as Europe expanded across the globe, in diverse regions as Europe's demands on its colonies were pressed and resisted (Ferro 1997). This 'society of states' laid down the formal rules which all sovereign and autonomous states would, in principle, have to adopt if they were to become full and equal members of the international order of states. The origins of this order are often traced to the Peace Treaties of Westphalia of 1648, which concluded the Thirty Years' War (see Falk 1969; Krasner 1995; Keohane 1995). But the rule system codified at Westphalia is best understood as having created a *normative trajectory* in international law, which did not receive its fullest articulation until the late eighteenth and early nineteenth century. It was during this time that territorial sovereignty, the formal equality of states, non-intervention in the internal affairs of other recognized states, and state consent as the foundation stone of international legal agreement became the core principles of the modern international order (see Crawford and Marks 1998). Of course, the consolidation of this order across the world would, paradoxically, have to wait until the decline of its earliest protagonists – the European powers – and the formal initiation of decolonization after the Second World War. But it is perhaps fair to say that it was not until the late twentieth century that the modern international order of states became truly global; for it was only with the end of all the great empires – European, American and finally Soviet – that many peoples could finally join the society of states as independent political communities. The number of internationally recognized states more than doubled between 1945 and the early 1990s (www.state.gov, accessed May 2002). The high point of the modern nation-state system was reached at the end of the twentieth century, buttressed and supported by the spread of new multilateral forms of international co-ordination and cooperation, in international organizations like the UN, and new international regulatory mechanisms, such as the universal human rights regime.

Not only has the modern nation-state become the principal type of political rule across the globe, but it has also increasingly assumed, since decolonization and the collapse of the Soviet empire, a particular political form; that is, it has crystallized as liberal or representative democracy (Potter et al. 1997). Several distinctive waves of democratization have brought particular countries in Europe, such as Portugal and Spain, into the democratic fold, while they have also brought numerous others closer to democracy in Latin America, Asia, Africa and Eastern Europe. Of course, there is no necessary evolutionary path to consolidated liberal democracy; the path is fragile and littered with obstacles – the hold of liberal democracy on diverse political communities is still tentative and open to challenge.

Surveying the political scene at the start of the twenty-first century there are good reasons, argue the sceptics, for thinking of this period as the age of the modern nation-state. For states in many places have increasingly claimed a monopoly of the legitimate use of force and judicial regulation, established permanent military forces as a symbol of statehood as well as a means of ensuring national security, consolidated tax raising and redistributive mechanisms, established nation-wide communication infrastructures, sought to systematize a national or official language, raised literacy levels and created a national schooling system, promulgated a national identity, and built up a diverse array of national political, economic and cultural institutions. In addition, many states, west and east, have sought to create elaborate welfare institutions, partly as a means to promote and reinforce national solidarity, involving public health provision and social security (Ashford 1986). Moreover, OECD states have pursued macroeconomic management strategies, shifting from Keynesian demand management in the 1950s to 1970s to extensive supply-side measures in the 1980s and 1990s, in order to help sustain economic growth and widespread employment. Success in these domains has often remained elusive, but the Western nation-state's array of policy instruments and objectives have been emulated recently in many regions of the world.

It certainly can be argued that much of this 'emulation' has been more the result of necessity than of choice. Decolonization clearly did not create a world of equally free states. The influence of Western commerce, trade and political organization outlived direct rule. Powerful national economic interests have often been able to sustain hegemonic positions over former colonial territories through the replacement of 'a visible presence of rule' with the 'invisible government' of corporations, banks and international organizations (the IMF and the World Bank, for example) (Ferro 1997: 349–50). Furthermore, interlaced with this has been the sedimented interests and machinations of the major powers, jostling with each other for advantage, if not hegemonic status (Bull 1977; Buzan et al. 1993). The geopolitical roles of individual states may have changed (for example, the shifts in the relative position of the UK and France during the twentieth century from global empires to middle-ranking powers), but these changes have been accommodated within the prevailing structures of world order – the modern nation-state system and capitalist economic relations – which have governed the strategic choices open to political communities. The restricted nature of these choices has become even clearer with the collapse of Soviet communism and the bipolar division of the world established during the Cold War. Accordingly, the development programmes of states in sub-Saharan Africa, East Asia and Latin America appear to have acquired a uniform shape – market liberalization, welfare cut-backs, minimal regulation of private capital flows, deregulation of labour markets – and to be governed by political necessity rather than publicly sanctioned intervention.

Yet, however limited the actual control most states possess over their territories, they generally fiercely protect their sovereignty – their entitlement to rule – and their autonomy – their capacity to choose appropriate forms of political, economic and social development. The distinctive 'bargains' governments create with their citizens remain fundamental to their legitimacy. The choices, benefits and welfare policies of states vary dramatically according to their location in the hierarchy of states, but, in the age of nation-states, the independence bestowed by sovereignty, in principle, still matters greatly to all states. Modern nation-states are political communities which create the conditions for establishing national communities of fate; and few seem willing to give this up. Although national political choices are constrained, they still count and remain the focus of public deliberation and debate. According to the sceptics, national political traditions are still vibrant, distinctive political bargains can still be struck between governments and electorates, and states continue, given the political will, to rule. The business of national politics is as important as, if not more important than, it was during the period in which modern states were first formed.

Towards a global politics

Globalists would generally contest many aspects of the above account. Their argument runs as follows. The traditional conception of the state, in which it is posited as the fundamental unit of world order, presupposes its relative homogeneity, that is, that it is a unitary phenomenon with a set of singular purposes (Young 1972: 36). But the growth of international and transnational organizations and collectivities, from the UN and its specialized agencies to international pressure groups and social movements, has altered the form and dynamics of both state and civil society. The state has become a fragmented policy-making arena, permeated by transnational networks (governmental and non-governmental) as well as by domestic agencies and forces. Likewise, the extensive penetration of civil society by transnational forces has altered its form and dynamics.

The exclusive link between territory and political power has been broken. The contemporary era has witnessed layers of governance spreading within and across political boundaries. New international and transnational institutions have both linked sovereign states together and transformed sovereignty into the shared exercise of power. A body of regional and international law has developed which underpins an emerging system of global governance, both formal and informal.

This transformation can be illustrated by a number of developments, including the rapid emergence of international organizations and regimes. New forms of multilateral and global politics have been established involving governments, intergovernmental organizations (IGOs) and a wide variety of transnational pressure groups and international non-governmental organizations (INGOs). In 1909 there were 37 IGOs and 176 INGOs, while in 2000 there were 6,743 IGOs and 47,098 INGOs (Union of International Associations 2001). (The 2000 figure for IGOs and INGOs has to be treated with some caution because it includes some inactive or defunct organizations.) In addition, there has been an explosive development in the number of international treaties in force, as well as in the number of international regimes, such as the nuclear non-proliferation regime.

To this pattern of extensive political interconnectedness can be added the dense web of activity within and among the key international policy-making fora, including the UN, G7, IMF, WTO, EU, APEC, ARF and MERCOSUR summits and many other official and unofficial meetings. In the middle of the nineteenth century there were two or three interstate conferences or congresses per annum; today the number totals over nine thousand annually (Union of International Associations 2001). National government is increasingly locked into a multilayered system of governance – local, national, regional and global – and can barely monitor it, let alone stay in command.

At the regional level the EU, in remarkably little time, has taken Europe from the disarray of the post-Second World War era to a supranational polity in which sovereignty is pooled across a growing number of areas of common concern. Despite its contested nature, the EU represents a novel system of governance which institutionalizes intergovernmental collaboration to address collective and transborder issues. There has also been an acceleration in regionalization beyond Europe: in the Americas, Asia-Pacific and, to a lesser degree, in Africa. While the form taken by this type of regionalism is very different from the EU model, it has nonetheless had significant consequences for political power, particularly in the Asia-Pacific (ASEAN, APEC, ARF, PBEC and many other groupings). As regionalism has deepened so interregional diplomacy has intensified as old and new regional groupings seek to consolidate their relationships with each other. In this respect, regionalism has not been a barrier to contemporary political globalization – involving the shifting reach of political power, authority and forms of rule – but, on the contrary, has been largely compatible with it.

The momentum for international cooperation shows no sign of slowing, despite the many vociferous complaints often heard about it. The concerns of regional and global politics already go far beyond traditional geopolitics. Drug smugglers, capital flows, acid rain, the activities of paedophiles, terrorists and illegal immigrants do not recognize borders; neither can the policies for their effective management and resolution. International cooperation and coordination of national policies have become necessary requirements for managing the consequences of a globalizing world.

Fundamental changes have also occurred in the world military order. Few states now consider unilateralism or neutrality as a credible defence strategy. Global and regional security institutions have become more important. Most states today have chosen to sign up to a host of multilateral arrangements and institutions in order to enhance their security. But it is not just the institutions of defence which have become multinational. The way military hardware is manufactured has also changed. The age of 'national champions' has been superseded by a sharp increase in licensing, co-production agreements, joint ventures, corporate alliances and subcontracting. This means that few countries – not even the United States – can claim to have a wholly autonomous military production capacity. The latter can be highlighted also in connection with key civil technologies, such as electronics, which are vital to advanced weapons systems, and which are themselves the products of highly globalized industries.

The paradox and novelty of the globalization of organized violence today is that national security has become a multilateral affair. For the first time in history, the one thing that did most to give modern nation-states a focus and a purpose, and which has always been at the very heart of statehood, can now only be realized effectively if nation-states come together and pool resources, technology, intelligence, power and authority.

With the increase in global interconnectedness, the scope of strategic policy choices available to individual governments and the effectiveness of many traditional policy instruments tends to decline (see Keohane and Nye 1972: 392–5; Cooper 1986: 1–22). This tendency occurs, in the first instance, because of the growing irrelevance of many border controls – whether formal or informal – which traditionally served to restrict transactions in goods and services, production factors and technology, ideas and cultural interchange (see Morse 1976: chs 2–3). The result is a shift in the relative costs and benefits of pursuing different policy options. States suffer a further diminution in power because the expansion of transnational forces reduces the control individual governments can exercise over the activities of their citizens and other peoples. For example, the increased mobility of capital induced by the development of global financial markets shifts the balance of power between markets and states and generates powerful pressures on states to develop market-friendly policies, including low public deficits and expenditure, especially on social goods; internationally competitive (that is, low) levels of direct taxation; privatization and labour market deregulation. The decisions of private investors to move private capital across borders can threaten welfare budgets, taxation levels and other government policies. In effect, the autonomy of states is compromised as governments find it increasingly difficult to pursue their domestic agendas without cooperating with other agencies, political and economic.

In this context, many of the traditional domains of state activity and responsibility (defence, economic management, health and law and order) can no longer be served without institutionalizing multilateral forms of collaboration. As demands on the state have increased in the postwar years, the state has been faced with a whole series of policy problems which cannot be adequately resolved without cooperating with other states and non-state actors (Keohane 1984; McGrew 1992). Accordingly, individual states alone can no longer be conceived of as the appropriate political units for either resolving key policy problems or managing effectively a broad range of public functions.

These arguments suggest that the modern state is increasingly embedded in webs of regional and global interconnectedness permeated by quasi-supranational, intergovernmental and transnational forces, and unable to determine its own fate. Such developments, it is also contended, challenge both the sovereignty and legitimacy of states. Sovereignty is challenged because the political authority of states is displaced and compromised by regional and global power systems, political, economic and cultural. State legitimacy is at issue because with greater regional and global interdependence, states cannot deliver fundamental goods and services to their citizens without international cooperation, and even the latter can be quite inadequate in the face of global problems – from global warming to the volatile movements of the financial markets – which can escape political regulation altogether. To the extent that political legitimacy depends on competence and the ability to 'deliver the goods' to citizens, it is under increasing strain. Globalization, conclude the globalists, is eroding the capacity of nation-states to act independently in the articulation and pursuit of domestic and international policy objectives: the power and role of the territorial nation-state is in decline. Political power is being reconfigured.

III The Fate of National Culture

For long periods of human history most people have lived out their lives in a web of local cultures. While the formation and expansion of the great world religions and premodern empires carried ideas and beliefs across frontiers with decisive social impacts, the most important vehicle for this, in the absence of direct military and political intervention, was the development of networks of ruling class culture (Mann 1986). At points these bit deeply into the fragmented mosaic of local cultures, but for most people, most of the time, their daily lives and routines persisted largely unchanged. Prior to the emergence of nations and nation-states, most cultural communication and interaction occurred either between elites or at very local and restricted levels. Little interaction took place between the court and the village. It was not until the eighteenth century that a new form of cultural identity coalesced between these two extremes.

The story of national culture: the sceptic's resource

The rise of the modern nation-state and nationalist movements altered the landscape of political identity. The conditions involved in the creation of the modern state were often also the conditions which generated a sense of nationhood. As state makers sought to centralize and reorder political power in circumscribed territories, and to secure and strengthen their power base, they came to depend on cooperative forms of social relations with their subjects (Giddens 1985; Mann 1986). The centralization of power spawned the dependence of rulers on the ruled for resources, human and financial. Greater reciprocity was created between governors and governed and the terms of their 'exchange' became contested. In particular, the military and administrative requirements of the modern state 'politicized' social relations and day-to-day activities. Gradually, people became aware of their membership in a shared political community, with a common fate. Although the nature of this emergent identity was often initially vague, it grew more definite and precise over time (Therborn 1977; Turner 1986; Mann 1987).

The consolidation of the ideas and narratives of the nation and nationhood has been linked to many factors, including the attempt by ruling elites and governments to create a new identity that would legitimize the enhancement of state power and the coordination of policy (Breuilly 1992); the creation, via a mass education system, of a common framework of understanding – ideas, meanings, practices – to enhance the process of state-coordinated modernization (Gellner 1983); the emergence of new communication systems – particularly new media (such as printing and the telegraph), independent publishers and a free market for printed material – which facilitated interclass communication and the diffusion of national histories, myths and rituals, that is, a new imagined community (B. Anderson 1983); and, building on a historic sense of homeland and deeply rooted memories, the consolidation of ethnic communities via a common public culture, shared legal rights and duties, and an economy creating mobility for its members within a bounded territory (Smith 1986, 1995).

Even where the establishment of a national identity was an explicit political project pursued by elites, it was rarely their complete invention. That nationalist elites actively sought to generate a sense of nationality and a commitment to the nation – a 'national community of fate' – is well documented. But 'it does not follow', as one observer aptly noted, that such elites 'invented nations where none existed' (Smith 1990: 180–1). The 'nation-to-be' was not any large, social or cultural entity; rather, it was a 'community of history and culture', occupying a particular territory, and often laying claim to a distinctive tradition of common rights and duties for its members. Accordingly, many nations were 'built up on the basis of pre-modern "ethnic cores" whose myths and memories, values and symbols shaped the culture and boundaries of the nation that modern elites managed to forge' (Smith 1990: 180; and see Smith 1986). The identity that nationalists strove to uphold depended, in significant part, on uncovering and exploiting a community's 'ethno-history' and on highlighting its distinctiveness in the world of competing political and cultural values (cf. Hall 1992).

Of course, the construction of nations, national identities and nation-states has always been harshly contested and the conditions for the successful development of each never fully overlapped with that of the others (see Held et al. 1999: 48–9, 336–40). States are, as noted previously, complex webs of institutions, laws and practices, the spatial reach of which has been difficult to secure and stabilize over fixed territories. Nations involve cross-class collectivities which share a sense of identity and collective political fate. Their basis in real and imagined cultural, linguistic and historical commonalities is highly malleable and fluid, often giving rise to diverse expressions and ambiguous relationships to states. Nationalism is the force which links states to nations: it describes both the complex cultural and psychological allegiance of individuals to particular national identities and communities, and the project of establishing a state in which a given nation is dominant. The fixed borders of the modern state have generally embraced a diversity of ethnic, cultural and linguistic groups with mixed leanings and allegiances. The relationships between these groups, and between such groups and states, has been chequered and often a source of bitter conflict. In the late nineteenth and twentieth centuries, nationalism became a force which supported and buttressed state formation in certain places (for example, in France) and challenged or refashioned it elsewhere (for instance, in multi-ethnic states such as Spain or the United Kingdom) (see Held et al. 1999: 337–8).

However, despite the diversity of nationalisms and their political aims, and the fact that most national cultures are less than two hundred years old, these new political forces created fundamentally novel terms of political reference in the modern world – terms of reference which appear so well rooted today that many, if not the overwhelming majority of, peoples take them as given and practically natural (cf. Barry 1998). While earlier epochs witnessed cultural institutions that either stretched across many societies (world religions) or were highly localized in their form, the rise of nations, nationalism and nation-states led to the organization of cultural life along national and territorial lines. In Europe this assisted the consolidation of some older states, the creation of a plethora of new nation-states and, eventually, the fragmentation of multinational empires. The potency of the idea of the 'nation' was not lost on the rest of the world and notions of national culture and nationalism spread – partly as a result of the expansion of European empires themselves – to the Americas, Asia, Africa and the Middle East. This helped fuel independence movements, cementing once again a particular link between culture, geography and political freedom.

The struggle for national identity and nationhood has been so extensive that the sceptics doubt the latter can be eroded by transnational forces and, in particular, by the development of a so-called global mass culture. In fact, advocates of the primacy of national identity emphasize its enduring qualities and the deep appeal of national cultures compared to the ephemeral and ersatz qualities of the products of the transnational media corporations (see Smith 1990; Brown 1995). Since national cultures have been centrally concerned with consolidating the relationships between political identity, self-determination and the powers of the state, they are, and will remain, the sceptics suggest, formidably important sources of ethical and political direction (see section VI below). Moreover, the new electronic networks of communication and information technology which now straddle the world help intensify and rekindle traditional forms and sources of national life, reinforcing their influence and impact. These networks, it has been aptly noted, 'make possible a denser, more intense interaction between members of communities who share common cultural characteristics, notably language'; and this provides a renewed impetus to the re-emergence of 'ethnic communities and their nationalisms' (Smith 1990: 175).

Furthermore, the sceptics argue, while new communication systems can create access to distant others, they also generate an awareness of difference; that is, of the incredible diversity in lifestyles and value orientations (see Gilroy 1987; Robins 1991; Massey and Jess 1995). Although this awareness may enhance cultural understanding, it often leads to an accentuation of what is distinctive and idiosyncratic, further fragmenting cultural life. Awareness of 'the other' by no means guarantees intersubjective agreement, as the Salman Rushdie affair only too clearly showed (see Parekh 1989). Moreover, although the new communication industries may generate a language of their own, a particular set of values and consumption patterns, they confront a multiplicity of languages and discourses through which people make sense of their lives and cultures (J. B. Thompson 1990: 313ff.). The vast majority of the products of the mass-market cultural corporations which flood across borders originate within the US and Western societies. But the available evidence, according to the sceptics, suggests that national (and local) cultures remain robust; national institutions continue in many states to have a central impact on public life; national television and radio broadcasting continues to enjoy substantial audiences; the organization of the press and news coverage retains strong national roots; and foreign cultural products are constantly read and reinterpreted in novel ways by national audiences (Miller 1992; Liebes and Katz 1993; J. B. Thompson 1995).

Finally, defenders of national culture point out that there is no common global pool of memories; no common global way of thinking; and no 'universal history' in and through which people can unite. There is only a manifold set of political meanings and systems through which any new global awareness must struggle for survival (see Bozeman 1984). Given the deep roots of ethno-histories, and the many ways they are often refashioned, this can hardly be a surprise. Despite the vast flows of information, imagery and people around the world, there are few signs of a universal or global culture in the making, and few signs of a decline in the political salience of nationalism.

Cultural globalization

Globalists take issue with most of the above, although they by no means dismiss the significance of 'the national question'. Among the points they often stress are the *constructed* nature of nationalist cultures; if these cultures were created more recently than many are willing to recognize, and elaborated for a world in which nation-states were being forged, then they are neither immutable nor inevitable in a global age. Nationalism may have been functional, perhaps even essential, for the consolidation and development of the modern state, but it is today at odds with a world in which economic, social and many political forces escape the jurisdiction of the nation-state.

Given how slow many people's identities often are to change, and the strong desire many people feel to (re)assert control over the forces which shape their lives, the complexities of national identity politics are, globalists concede, likely to persist. But such politics will not deliver political control and accountability over regional and global phenomena unless a distinction is made between cultural nationalism – the conceptual, discursive and symbolic resources which are fundamental to people's lives – and political nationalism – the assertion of the exclusive political priority of national identity and national interests. The latter cannot deliver many sought-after public goods and values without regional and global collaboration. Only a global political outlook can ultimately accommodate itself to the political challenges of a more global era, marked by overlapping communities of fate and multilayered (local, national, regional and global) politics. Is there any reason to believe that such an outlook might emerge? Not only are there many sources for such an outlook in the present period but, globalists would argue, there are precedents to be found in the history of the modern state itself.

While the rise of nation-states and nationalist projects intensified cultural formation and interaction within circumscribed political terrains, the expansion of European powers overseas helped entrench new forms of cultural globalization with innovations in transport and communications, notably regularized mechanical transport and the telegraph. These technological advances helped the West to expand and enabled the secular philosophies which emerged in the late eighteenth and nineteenth centuries – especially science, liberalism and socialism – to diffuse and transform the cultural context of almost every society on the planet.

Contemporary popular cultures may not yet have had a social impact to match this but, globalists argue, the sheer scale, intensity, speed and volume of global cultural communications today is unsurpassed. For instance, the value of cultural exports and imports has increased many times over the last few decades; there has been a huge expansion in the trade of television, film and radio products; national broadcasting systems are subject to intensifying international competition and declining audience shares; and the figures for connections and users of the Internet are growing exponentially as communication patterns increasingly transcend national borders (UNESCO 1950, 1986, 1989; OECD 1997). The accelerating diffusion of radio, television, the Internet, satellite and digital technologies has made instant communication possible. Many national controls over information have become ineffective. People everywhere are exposed to the values of other cultures as never before. Nothing, not even the fact that we all speak different languages, can stop the flow of ideas and cultures. The English language is becoming so dominant that it provides a linguistic infrastructure as powerful as any technological system for transmitting ideas and cultures.

Beyond its scale, what is striking about today's cultural globalization is that it is driven by companies, not countries. Corporations, argue the globalists, have replaced states and theocracies as the central producers and distributors of cultural globalization. Private international institutions are not new but their mass impact is. News agencies and publishing houses in previous eras had a much more limited impact on local and national cultures than the consumer goods and cultural products of today's global corporations.

For the globalists the existence of new global communication systems is transforming relations between physical locales and social circumstances, and altering the 'situational geography' of political and social life (Meyrowitz 1985). In these circumstances, the traditional link between 'physical setting' and 'social situation' is broken. Geographical boundaries are overcome as individuals and collectivities experience events and developments far afield. Moreover, new understandings, commonalities and frames of meaning are elaborated without direct contact between people. As such, they can serve to detach, or disembed, identities from particular times, places and traditions, and can have a 'pluralizing impact' on identity formation, producing a variety of hyphenated identities which are 'less fixed or unified' (Hall 1992: 303, 309). While everyone has a local life, the ways people make sense of the world are now increasingly interpenetrated by developments and processes from diverse settings. Hybrid cultures and transnational media corporations have made significant inroads into national cultures and national identities. The cultural position of the modern state is transformed as a result (cf. McLuhan 1964; Rheingold 1995).

Those states which seek to pursue rigid closed-door policies on information and culture are certainly under threat from these new communication processes and technologies, and it is likely that the conduct of socio-economic life everywhere will be transformed by them as well. Cultural flows are transforming the politics of national identity and the politics of identity more generally. These developments have been interpreted, by some global theorists, as creating a new sense of global belonging and vulnerability which transcends loyalties to the nation-state, that is, to 'my country right or wrong' (see, for instance, Falk 1995b). The warrant for this latter claim can be found, it has been argued, in a number of processes and forces, including the development of transnational social movements with clear regional or global objectives, such as the protection of natural resources and the environment, and the alleviation of disease, ill-health and poverty (Ekins 1992). Groups like Friends of the Earth and Greenpeace have derived some of their success precisely from their ability to show the interconnectedness across nations and regions of the problems they seek to tackle. In addition, the constellation of actors, agencies and institutions – from regional political organizations to the UN – which are oriented towards international and transnational issues is cited as further evidence of a growing global political awareness. Finally, a commitment to human rights as indispensable to the dignity and integrity of all peoples – rights entrenched in international law and championed by transnational groups such as Amnesty International – is held to be additional support of an emerging 'global consciousness'. These factors, it is also maintained, represent the cultural foundations of an incipient 'global civil society' (Falk 1995b; Kaldor 1998).

IV A Global Economy?

Assessing competing claims about the fate of national cultures is complicated by the fact that, in part, it involves subjective questions of meaning for which systematic and reliable cross-cultural evidence is difficult to acquire. By contrast the debate about economic globalization suffers from almost the opposite problem: namely, the existence of a multiplicity of data sources on diverse global trends, from merchandise trade and migration to foreign direct investment and child labour. At times, this tends to lend the debate a certain spurious objectivity as appeals to 'hard' evidence seek to establish the basis for conclusive judgements about competing claims. In practice, the discussion revolves as much around conflicting assessments of the validity of existing evidence and the value of different types of data as it does around issues of theoretical interpretation.

Although the debate about economic globalization has produced a voluminous literature, with contributions covering all the main traditions of economic and social analysis, the critical points of contention cluster around four fundamental questions. Put simply, these embrace:

- the extent to which the evidence shows that economic activity is being globalized;
- whether a new form of global capitalism, driven by 'the third industrial revolution', is taking hold across the globe;
- how far economic globalization remains subject to proper and effective national and international governance; and
- whether global competition spells the end of national economic strategy and the welfare state.

These four questions preoccupy both globalists and sceptics. A critical dialogue has opened up concerning the historical evidence about economic globalization; the dominant regime of capitalist accumulation; the modes and effectiveness of contemporary economic governance; and the robustness of national economic autonomy and sovereignty.

The persistence of national economies

The sceptical position reflects a cautious interpretation of contemporary global economic trends. Rather than a truly global economy the sceptics argue that, judged in historical terms, the present world economy remains far from closely integrated. By comparison with the *belle époque* of 1890–1914 both the magnitude and geographical scale of flows of trade, capital and migrants are currently of a much lower order (Gordon 1988; Weiss 1998; Hirst and Thompson 1999). Although today gross flows of capital between the world's major economies are largely unprecedented, the actual net flows between them are considerably less than at the start of the twentieth century (Zevin 1992). Many of these economies are less open to trade than in the past, and this is also the case for many developing countries (Hoogvelt 1997; Hirst and Thompson 1999). In addition, the scale of nineteenth-century migration across the globe dwarfs that of the present era by a significant magnitude (Hirst and Thompson 1999). In all these respects, the contemporary world economy is significantly less open and globalized than its nineteenth-century counterpart. It is also, argue the sceptics, significantly less integrated.

If economic globalization is associated with the integration of separate national economies, such that the actual organization of economic activity transcends national frontiers, then a global economy might be said to be emerging. Theoretically, in a globalized economy world market forces take precedence over national economic conditions as the real values of key economic variables (production, prices, wages and interest rates) respond to global competition. Just as local economies are submerged within national markets so, suggests the strong sceptical position, the real test of economic globalization is whether world trends confirm a pattern of global economic integration, that is, the existence of a single global economy (Hirst and Thompson 1999). In this respect the evidence, it is argued, falls far short of the exaggerated claims of many globalists. Even among the OECD states, undoubtedly the most interconnected of any economies, the contemporary trends suggest only a limited degree of economic and financial integration (Feldstein and Horioka 1980; Neal 1985; Zevin 1992; Jones 1995; Garrett 1998). Whether in respect of finance, technology, labour or production the evidence fails to confirm either the existence or the emergence of a single global economy (Hirst and Thompson 1999). Even multinational corporations, it is concluded, remain predominantly the captives of national or regional markets, contrary to their popular portrayal as 'footloose capital' (Tyson 1991; Ruigrok and Tulder 1995).

In contrast to the globalists, the sceptics interpret current trends as evidence of a significant, but not historically unprecedented, internationalization of economic activity, that is, an intensification of linkages between separate national economies. Internationalization complements, rather than displaces, the predominantly national organization and regulation of contemporary economic and financial activity, conducted by national or local public and private entities. All economics is considered principally national or local. Even the trend towards internationalization repays careful scrutiny; for it betrays a concentration of trade, capital and technological flows between the major OECD states to the exclusion of much of the rest of the world. As Hoogvelt (1997, 2001) notes, in the post-war period (1950–95) developing countries' share of world exports and outward foreign investment declined from 33 per cent to 27.7 per cent and from 50 per cent to 16.5 per cent respectively. The structure of world economic activity is dominated (and increasingly so) by the OECD economies and the growing links between them (Jones 1995). By far the largest proportion of humanity remains excluded from the so-called global market; there is a growing gap between North and South.

Far from an integrated global economy, the sceptical analysis confirms the increasing concentration of world economic activity within three core blocs, each with its own centre and periphery; namely, Europe, Asia-Pacific and the Americas. This triadization of the world economy is associated with a growing tendency towards economic and financial interdependence *within* each of these three zones at the expense of integration between them (Lloyd 1992; Hirst and Thompson 1999). This growing regionalization of economic activity is further evident in the evolution of the formal structures of APEC, NAFTA, MERCOSUR, ASEAN and the EU and in the regional production and marketing strategies of multinational corporations and national firms (G. Thompson 1998a). Far from the present being an era of economic globalization, it is, especially by comparison with the *belle époque*, one defined by the growing segmentation of the world economy into a multiplicity of regional economic zones dominated by powerful mercantilist forces of national economic competition and economic rivalry (Hart 1992; Sandholtz et al. 1992).

If the sceptical argument dismisses evidence of a globalized economy, it is equally critical of the proposition that the current era is defined by the existence of a nascent global capitalism. While not denying that capitalism, following the collapse of state socialism, is the 'only economic game in town' or that capital itself has become significantly more internationally mobile, such developments, it is argued, should not be read as evidence of a new globalized ('turbo') capitalism, transcending and subsuming national capitalisms (Callinicos et al. 1994; Ruigrok and Tulder 1995; Boyer and Drache 1996; Hirst and Thompson 1999). On the contrary, distinct capitalist social formations continue to flourish on the models of the European social-democratic mixed economy, the American neoliberal project and the developmental state of East Asia (Wade 1990). Despite the aspirations of its most powerful protagonists, the neoliberal tide of the 1990s has not forced a genuine or substantive convergence between these; nor can it claim a serious victory over its competitors (Scharpf 1991; Hart 1992). The 'end of history', in this respect, has turned out to be short-lived. The idea of global capitalism, personified by the business empires of figures such as George Soros and Bill Gates, may have great popular appeal but it is, ultimately, an unsatisfactory and misleading concept since it ignores the diversity of existing capitalist forms and the rootedness of all capital in discrete national capitalist structures.

Although the images of foreign exchange dealing rooms in New York or London reinforce the idea that capital is essentially 'footloose', the reality, suggest the sceptics, is that all economic and financial activity, from production, research and development to trading and consumption, has to take place somewhere. To talk of the 'end of geography' is a serious exaggeration when place and space remain such vital determinants of the global distribution of wealth and economic power. Granted that, in a world of almost real-time communication, corporate capital and even small businesses may have the option of greater mobility, the fate of firms, large or small, is still primarily determined by local and national competitive advantages and economic conditions (Porter 1990; Ruigrok and Tulder 1995; G. Thompson 1998b). Even among the most substantial multinationals, competitive advantages are largely rooted in their respective national systems of innovation, while production and sales tend to be strongly regionally concentrated (Ruigrok and Tulder 1995; Thompson and Allen 1997). In effect, multinationals are little more than 'national corporations with international operations' since their home base is such a vital ingredient of their continued success and identity (Hu 1992) – a point British Airways learnt to its cost when its frequent flyers (predominantly of non-British origin) forced the airline to reconsider its policy of replacing the Union Jack with global images on its aircraft tailplanes. Furthermore, a brief glance at the Fortune 500 list of the world's largest companies would confirm this since few are headquartered outside the US, UK, Germany or Japan. Indeed, closer inspection of the list would reveal the 'myth' of global capitalism as a convenient cover for the internationalization of American business above all else (Callinicos et al. 1994; Burbach et al. 1997). Governments, or at least the more powerful among them, thus retain considerable bargaining power with MNCs because they control access to vital national economic resources.

In dismissing the idea of 'footloose capital', the sceptical argument undermines the proposition that there is a new pattern of interdependence emerging between North and South. There is, the sceptics acknowledge, a popular belief that the deindustrialization of OECD economies is primarily a consequence of the export of manufacturing business and jobs to emerging economies and less developed economies, where wage rates are lower and regulatory requirements much less stringent. This interdependence between North and South is taken by some to define a new international division of labour in which developing economies are moving away from primary products to manufacturing, while the OECD economies are shifting from manufacturing to services. But the actual evidence, the sceptics suggest, does not bear out such a dramatic shift, while the argument overgeneralizes from the East Asian experience (Callinicos et al. 1994; Hirst and Thompson 1996). The bulk of the world's poorest economies remain reliant on the export of primary products, while the OECD economies continue to dominate trade in manufactured goods (Hirst and Thompson 1999). Deindustrialization cannot be traced to the effects of foreign trade, especially cheap exports from the developing world, but rather is a consequence of technological change and changes in labour market conditions throughout the OECD economies (Rowthorn and Wells 1987; Krugman 1994, 1995). By exaggerating the changes in the international division of labour there is a serious risk of overlooking the deeper continuities in the world economy. Despite internationalization and regionalization, the role and position of most developing countries in the world economy have changed remarkably little over the entire course of the last century (Gordon 1988). The present international division of labour is one Marx would instantly recognize.

If the international division of labour has changed only marginally, so also has the governance of the world economy. Although the post-1945 era witnessed significant institutional innovations in international economic governance, especially with the creation of a multilateral system of economic surveillance and regulation – the Bretton Woods regime – the actions of the US, as the world's largest single economic agent, remain critical to the smooth functioning of the world economy. In effect, the governance of the world economy still remains reliant, especially in times of crisis, on the willingness of the most powerful state(s) to police the system – as the East Asian crash of 1997–8 demonstrated so dramatically. However, even in more stable times, it is the preferences and interests of the most economically powerful states, in practice the G7 governments, that take precedence. Economic multilateralism has not rewritten the basic rules of international economic governance, argue the sceptics, for it remains a realm in which might trumps right: where the clash of competing national interests is resolved ultimately through the exercise of national power and bargaining between governments (Gilpin 1987; Sandholtz et al. 1992; Kapstein 1994). In this respect, multilateral institutions have to be conceived as instruments of states – and the most powerful states at that.

Of course, it is not part of the sceptical argument that the governance of the world economy has not changed at all in response to growing internationalization and, especially, regionalization (Hirst and Thompson 1999). There is, on the contrary, a strong recognition that the most pressing issue confronting the guardians of the world economy, in the aftermath of the East Asian crash, is how to reform and strengthen the Bretton Woods system (Kapstein 1994; Hirst and Thompson 1999). Furthermore, there is an acknowledgement of growing tensions between the rule-making activities of multilateral bodies, such as the WTO, and regional bodies such as the EU. New issues, from the environment to food production, have found their way on to the governance agenda too. Many of these are highly politicized since they bite deep into the sovereign jurisdiction of states – the very core of modern statehood itself.

Nevertheless, national governments, the sceptics hold, remain central to the governance of the world economy, since they alone have the formal political authority to regulate economic activity. As most states today rely, to varying degrees, on international flows of trade and finance to ensure national economic growth, the limits to, and the constraints on, national economic autonomy and sovereignty have become more visible, especially in democratic states. Historically, however, these constraints are no greater than in previous epochs when, as noted previously, international interdependence was much more intense. Paradoxically, the *belle époque* was precisely the era during which nation-states and national economies were being forged (Gilpin 1981; Krasner 1993). Thus, contemporary conditions pose no real threat to national sovereignty or autonomy. Far from economic interdependence necessarily eroding national economic autonomy or sovereignty, it can be argued to have enhanced the national capabilities of many states. Openness to global markets, many economists argue, provides greater opportunities for sustained national economic growth. As the experience of the East Asian 'tigers' highlighted, global markets are entirely compatible with strong states (Weiss 1998). But even in those contexts where state sovereignty appears to be significantly compromised by internationalization, as in the case of the European Union, national governments, according to the sceptical interpretation, effectively pool sovereignty in order to enhance, through collective action, their control over external forces. Rather than conceiving of national governments as simply captives of external economic forces, the sceptical position acknowledges their critical role (especially that of the most powerful) in creating the necessary national and international conditions for global markets to exist in the first place. In this respect, states are both the architects and the subjects of the world economy.

As subjects, however, states do not respond in identical ways to the dynamics of world markets or to external economic shocks. While international financial markets and international competition may well impose similar kinds of economic disciplines on all governments, this does not necessarily prefigure a convergence in national economic strategies or policies. Such pressures are mediated by domestic structures and institutional arrangements which produce enormous variations in the capacity of national governments to respond (Garrett and Lange 1996; Weiss 1998). States can and do make a difference, as the continuing diversity of capitalist forms indicates. This is especially the case in relation to macroeconomic and industrial policy, where significant national differences continue to exist even within the same regions of the world (Dore 1995; Boyer and Drache 1996; Garrett 1998). Nor is there much convincing evidence to suggest that international financial disciplines by themselves either preclude governments from pursuing progressive and redistributive economic strategies or, alternatively, prefigure the demise of the welfare state or robust policies of social protection (Garrett 1996, 1998; Rieger and Liebfried 1998; Hirst and Thompson 1999). The fact that levels of national welfare spending and social protection continue to differ considerably, even within the EU, points to the absurdity of the latter argument. In the judgement of the sceptics, national governments remain, for the most part, the sole source of effective and legitimate authority in the governance of the world economy, while also being the principal agents of international economic coordination and regulation – a condition reinforced by the growing reassertion of state power following the events of 11 September 2001.

The new global economy

For the globalists this conclusion is hard to credit, for it overlooks the ways in which national governments are having to adjust constantly to the push and pull of global market conditions and forces. Contesting both the sceptics' evidence, and their interpretation of world economic trends, the globalist account points to the historically unprecedented scale and magnitude of contemporary global economic integration (O'Brien 1992; Altvater and Mahnkopf 1997; Greider 1997; Rodrik 1997; Dicken 1998). Daily turnover on the world's foreign exchange markets, for instance, currently exceeds some sixty times the annual level of world exports, while the scale and intensity of world trade far exceeds that of the *belle époque*. Global production by multinational corporations is considerably greater than the level of world exports, and encompasses all the world's major economic regions. Migration, though perhaps slightly smaller in magnitude than in the nineteenth century, nevertheless has become increasingly globalized. National economies, with some exceptions, are presently much more deeply enmeshed in global systems of production and exchange than in previous historical eras, while few states, following the collapse of state socialism, remain excluded from global financial and economic markets. Patterns of contemporary economic globalization have woven strong and enduring webs across the world's major regions such that their economic fates are intimately connected.

Although the global economy, conceived as a singular entity, may not be as highly integrated as the most robust national economies, the trends, argue the globalists, point unambiguously towards intensifying integration within and across regions. The operation of global financial markets, for example, has produced a convergence in interest rates among the major economies (Fukao 1993; Gagnon and Unferth 1995). Financial integration also brings with it a contagion effect in that economic crisis in one region, as the East Asian crash of 1997–8 demonstrated, rapidly acquires global ramifications (Godement 1999). Alongside financial integration the operations of multinational corporations integrate national and local economies into global and regional production networks (Castells 1996; Gereffi and Korzeniewicz 1994; Dicken 1998). Under these conditions, national economies no longer function as autonomous systems of wealth creation since national borders are increasingly marginal to the conduct and organization of economic activity. In this 'borderless economy', as the more radical globalists conceive it, the distinction between domestic economic activity and global economic activity, as the range of products in any superstore will confirm, is becoming increasingly difficult to sustain (Ohmae 1990).

Accordingly, the contemporary phase of economic globalization, the globalists suggest, is distinguished from past phases by the existence of a single global economy transcending and integrating the world's major economic regions (Geyer and Bright 1995; Dickson 1997; Scholte 1997; Dicken 1998; Frank 1998). By comparison with the *belle époque*, an era distinguished by relatively high levels of trade protectionism and imperial economic zones, the present global economy is considerably more open and its operations impact upon all countries, even those nominally 'pariah' states such as Cuba or North Korea (Nierop 1994). Nor has the growth of regionalism produced a sharp division of the world into competing blocs; for the regionalization of economic activity has not been at the expense of economic globalization (Lloyd 1992; Anderson and Blackhurst 1993; Anderson and Norheim 1993). On the contrary, regionalism has largely facilitated and encouraged economic globalization since it offers a mechanism through which national economies can engage more strategically with global markets (Gamble and Payne 1991; Hanson 1998). Furthermore, there is little evidence to suggest, as do many sceptics, that a process of triadization is occurring in so far as economic interdependence between the three major centres of the global economy – the US, Japan and Europe – appears itself to be intensifying (Ohmae 1990; Dunning 1993; Greider 1997; Perraton et al. 1997; Dicken 1998; Haass and Liton 1998). Although the contemporary global economy is structured around three major centres of economic power – unlike the *belle époque* or the early postwar decades of US dominance – it is best described as a post-hegemonic order in so far as no single centre can dictate the rules of global trade and commerce (Gill 1992; Geyer and Bright 1995; Amin 1996). Of course, it remains a highly stratified order in that by far the largest share of global economic flows – such as trade and finance – are concentrated among the major OECD economies. But the dominance of OECD economies is being diluted as economic globalization significantly alters the geography of world economic activity and power.

Over the last few decades developing economies' shares of world exports and foreign investment flows (inwards and outwards) have increased considerably (Castells 1996; Dicken 1998; UNCTAD 1998a, 1998c). In 2000 they accounted for 27 per cent of world manufactured export, by comparison with 17 per cent in 1990; and by 2001 their share of FDI (inflow) was 28 per cent compared to 18 per cent in 1986 (WTO 2002; UNCTAD 2002). The NICs of East Asia and Latin America have become an increasingly important destination for OECD investment and an increasingly significant source of OECD imports – São Paulo, it is sometimes quipped, is Germany's largest industrial city (Dicken 1998). By the late 1990s almost 50 per cent of total world manufacturing jobs were located in developing economies, while over 60 per cent of developing country exports to the industrialized world were manufactured goods, a twelvefold increase in less than four decades (UNDP 1998). Contrary to the sceptical interpretation, contemporary economic globalization is neither solely, nor even primarily, an OECD phenomenon but, rather, embraces all continents and regions (UNCTAD 1998c).

By definition, the global economy is a capitalist global economy in that it is organized on the basis of market principles and production for profit. Historically, apart from the division of the world into capitalist and state socialist camps during the Cold War era, many would argue this has been the case since early modern times, if not since much before that (Wallerstein 1974; Braudel 1984; Fernández-Armesto 1995; Geyer and Bright 1995; Frank and Gills 1996; Frank 1998). However, what distinguishes the present global capitalist economy from that of prior epochs, argue the globalists, is its particular historical form. Over recent decades, the core economies in the global system have undergone a profound economic restructuring. In the process they have been transformed from essentially industrial to post-industrial economies (Piore and Sabel 1984; Castells 1996). Just as the twentieth century witnessed the global diffusion of industrial capitalism, so at the century's end post-industrial capitalism began to take its place.

With this restructuring has come a dramatic alteration in the form and organization of global capitalism. In variously referring to 'global informational capitalism', 'manic capitalism', 'turbo-capitalism', or 'supraterritorial capitalism', commentators seek to capture the qualitative shift occurring in the spatial organization and dynamics of this new global capitalist formation (Castells 1996; Greider 1997; Scholte 1997; Luttwak

1999). In the age of the Internet, to simplify the argument, capital – both productive and financial – has been liberated from national and territorial constraints, while markets have become globalized to the extent that the domestic economy constantly has to adapt to global competitive conditions. In a wired world, software engineers in Hyderabad can do the jobs of software engineers in London for a fraction of the cost. Inscribed in the dynamics of this new global capitalism is a powerful imperative towards the denationalization of strategic economic activities.

Central to the organization of this new global capitalist order is the multinational corporation. In 2001 there were approximately 65,000 MNCs worldwide with 850,000 foreign subsidiaries selling $18.5 trillion of goods and services across the globe (UNCTAD 2002). Today transnational production considerably exceeds the level of global exports ($7.4 trillion) and has become the primary means for selling goods and services abroad. Multinational corporations now account, according to some estimates, for at least 20 per cent of world production, 11 per cent of world GDP (compared to 7 per cent in 1990), 54 million direct jobs and 70 per cent of world trade (Perraton et al. 1997; UNCTAD 2002). They span every sector of the global economy from raw materials, to finance, to manufacturing, integrating and reordering economic activity within and across the world's major economic regions (Gill 1995; Castells 1996; Amin 1997). In the financial sector multinational banks are by far the major actors in global financial markets, playing a critical role in the management and organization of money and credit in the global economy (Walters 1993; Germain 1997). It is global corporate capital, rather than states, contend the globalists, that exercises decisive influence over the organization, location and distribution of economic power and resources in the contemporary global economy.

Contemporary patterns of economic globalization, the globalists also argue, have been accompanied by a new global division of labour brought about, in part, by the activities of multinationals themselves (Johnston et al. 1995; Hoogvelt 1997). The restructuring (deindustrialization) of OECD economies can be directly related to the outsourcing of manufacturing production by multinationals to the newly industrializing and transition economies of Asia, Latin America and Eastern Europe (Reich 1991; Wood 1994; Rodrik 1997). NICs now account for a significant proportion of global exports and, through integration into transnational production networks, have become extensions of, as well as competitors of, businesses in metropolitan economies. In this respect, globalization is reordering developing countries into clear winners and losers. Such restructuring is, moreover, replicated within countries, both North and South, as communities and particular locales closely integrated into global production networks reap significant rewards while the rest survive on the margins. Thus, contemporary economic globalization brings with it an increasingly unified world for elites – national, regional and global – but increasingly divided nations as the global workforce is segmented, within rich and poor countries alike, into winners and losers. The old North–South international division of labour is giving way, suggest the globalists, to a new global division of labour, which involves a reordering of interregional economic relations and a new pattern of wealth and inequality, transcending both post-industrial and industrializing economies (Reich 1991; Amin 1997; Hoogvelt 1997; Rodrik 1997; Castells 1998; Dicken 1998).

One of the central contradictions of this new order pertains to its governance. For the globalization of economic activity exceeds the regulatory reach of national governments while, at the same time, existing multilateral institutions of global economic governance have limited authority because states, jealously guarding their national sovereignty, refuse to cede them substantial power (Zürn 1995). Under these conditions, assert some of the more radical globalists, world markets effectively escape political regulation such that economic globalization is in danger of creating a 'runaway world' (Giddens 1999). Governments, therefore, have no real option other than to accommodate to the forces of economic globalization (Amin 1996; Cox 1997). Furthermore, the existing multilateral institutions of global economic governance, especially the IMF, World Bank and WTO, in so far as they advocate and pursue programmes which simply extend and deepen the hold of global market forces on national economic life, have become the agents of global capital and the G7 states (Gill 1995; Korten 1995; Cox 1996). For the most part, the governance structures of the global economy operate principally to nurture and reproduce the forces of economic globalization, while also acting to discipline this nascent 'global market civilization' (Gill 1995; Korten 1995; Burbach et al. 1997; Hoogvelt 1997; Scholte 1997).

While accepting many of the precepts of this radical globalist position, others conceive the governance structures of the global economy as having considerable autonomy from the dictates of global capital and/or the G7 states (Rosenau 1990; Shaw 1994; Shell 1995; Cortell and Davies 1996; Castells 1997; Hasenclever et al. 1997; Milner 1997; Herod et al. 1998). According to these authors, multilateral institutions have become increasingly important sites through which economic globalization is contested, by weaker states and the agencies of transnational civil society, while the G7 states and global capital find themselves on many occasions at odds with their decisions or rules. Moreover, the political dynamics of multilateral institutions tend to mediate great power control, for instance through consensual modes of decision-making, such that they are never merely tools of dominant states and social forces (Keohane 1984, 1998; Ruggie 1993a; Hasenclever et al. 1997; Roberts 1998). Alongside these global institutions also exist a parallel set of regional bodies, from MERCOSUR to the EU, which constitute another dimension to what is an emerging system of multilayered economic governance (Rosenau 1990, 1997; Ruggie 1993b). Within the interstices of this system operate the social forces of an emerging transnational civil society, from the International Chamber of Commerce to the Jubilee 2000 campaign, seeking to promote, contest and bring to account the agencies of economic globalization (Falk 1987; Ekins 1992; Scholte 1993; Burbach et al. 1997; Castells 1997; Rosenau 1997). In this respect, the politics of global economic governance is much more pluralistic than the sceptics admit in so far as global and regional institutions exercise considerable independent authority. Economic globalization has been accompanied by a significant internationalization of political authority associated with a corresponding globalization of political activity.

Since national governments are deeply embedded in this system of multilayered economic governance, their role and power continues to be qualified decisively by economic globalization (Reich 1991; Ohmae 1995; Sassen 1996; Rosenau 1997). Some fervent globalists regard nation-states as increasingly 'transitional modes of economic organization and regulation' since, in an age of global markets, it is believed they can no longer effectively manage or regulate their own national economies (Ohmae 1995). Sandwiched between the constraints of global financial markets and the exit options of mobile productive capital, national governments across the globe have been forced to adopt increasingly similar (neoliberal) economic strategies which promote financial discipline, limited government and sound economic management (Gill 1995;

Strange 1996; Amin 1997; Greider 1997; Hoogvelt 1997; Scholte 1997; Yergin and Stanislaw 1998; Luttwak 1999). As global competition intensifies, governments are increasingly unable to maintain existing levels of social protection or welfare state programmes without undermining the competitive position of domestic business and deterring much-needed foreign investment (Reich 1991; Cox 1997; Greider 1997; Scholte 1997; Gray 1998). Borrowing to increase public expenditure or raising taxes to do so are both equally constrained by the dictates of global financial markets (Gourevitch 1986; Frieden 1991; Garrett and Lange 1991; Cox 1997; Germain 1997). Some globalists interpret economic globalization as prefiguring the end of the welfare state and social democracy, while others point less dramatically to a growing convergence across the globe towards more limited welfare state regimes (Gourevitch 1986; Rodrik 1997; Gray 1998; Pieper and Taylor 1998). Nevertheless, there is agreement that the economic autonomy, sovereignty and social solidarity of contemporary states are being transformed by contemporary processes of economic globalization (Zacher 1992; Ohmae 1995; Cable 1996; Sassen 1996; Strange 1996; Altvater and Mahnkopf 1997; Amin 1997; Castells 1997; Cox 1997; Greider 1997; Jessop 1997; Rosenau 1997; Scholte 1997; Shaw 1997).

V Divided World, Divided Nations

Contemporary economic globalization, according to a recent UNDP report, is associated with an accelerating gap between rich and poor states, as well as between peoples, in the global economy (UNDP 1999). By determining the location and distribution of wealth and productive power in the world economy, globalization defines and reconfigures worldwide patterns of hierarchy and inequality. This has profound implications for human security and world order in so far as global inequalities condition the life chances of individuals and collectivities, not to mention creating the preconditions for a more unstable and unruly world (Herod et al. 1998; Hurrell 1999). Not surprisingly, the problem of global inequality has become one of the most pressing and contentious issues on the global agenda.

While there is considerable public and academic debate about global inequalities, the discussion does not readily crystallize into a neat dialogue between sceptics and globalists. There is much disagreement among both sceptics and globalists about the causes of, as well as the appropriate remedies for, global inequality.

In analysing contemporary patterns of global inequality, globalists tend to identify economic globalization as the primary culprit. In contrast, the sceptics tend to deny its significance, emphasizing instead the historical reality of imperialism and/or geopolitics. Yet, these contrasting interpretations are also associated within each camp with quite different ethical positions and distinctive assessments of the consequences of economic globalization for both national and international solidarity and, ultimately, the governance and stability of the present world order.

One world or many?

Among those globalists of a neoliberal persuasion contemporary economic globalization is taken to embody the creation of a single global market which, through the operation of free trade, capital mobility and global competition, is the harbinger of modernization and development (Ohmae 1990, 1995; Perlmutter 1991). Pointing to the East Asian economic miracle and the Latin American experience of the early to mid 1990s (and, indeed, to the quick recovery of many of these economies from the economic turmoil of 1997–8), neoliberals emphasize that the solution to global inequalities is to be found in pursuing policies of openness to global capital and global competition, and in seeking closer integration within the global economy. While there is a recognition that economic globalization generates losers as well as winners, neoliberals stress the growing diffusion of wealth and affluence throughout the world economy. Global poverty, by historical standards, has fallen more in the last fifty years than in the past five hundred and the welfare of people in almost all regions has improved significantly over the last few decades (UNDP 1997). The world has become increasingly middle class. Rather than the old North–South fracture, a new worldwide division of labour is said to be replacing the traditional core–periphery model of global economic relations. As a result, the 'Third World' is becoming increasingly differentiated as more states, taking advantage of open global markets, become industrialized; South Korea, for instance, is now a member of the OECD, the Western club of 'rich' nations, while many other industrializing states aspire to membership. Recognizing both economic and moral limits to the pursuit of global equality, neoliberals remain willing to accept the 'natural' inequalities created by the global market when measured against the loss of liberty – and economic efficiency – entailed by multilateral intervention to redress the consequences of uneven economic globalization (Ohmae 1995).

Amongst neoliberals, economic globalization is associated with growing global affluence: extreme poverty and global inequality are regarded as transitional conditions that will evaporate with market-led global modernization. Economic globalization, it is argued, establishes the preconditions for a more stable and peaceful world order since enduring economic interdependence, as relations between Western states confirm, makes the resort to military force or war increasingly irrational and, therefore, increasingly unlikely (Mitrany 1975; Howard 1981; Mueller 1989; Russett 1993).

Those globalists of a social democratic or radical persuasion offer a rather different interpretation. Economic globalization, they argue, is directly responsible for widening disparities in life chances across the globe – a deepening polarization of income and wealth (Beetham 1995; Commission on Global Governance 1995; Falk 1995a; Gill 1995; Bradshaw and Wallace 1996; Castells 1997; Greider 1997; Hoogvelt 1997; Gray 1998; UNDP 1999). Three related patterns are evident: the segmentation of the global workforce into those who gain and those who lose from economic globalization; the growing marginalization of the losers from the global economy; and the erosion of social solidarity within nations as welfare regimes are unable, or governments unwilling, to bear the costs of protecting the most vulnerable (Lawrence 1996; Castells 1997; Cox 1997; Dicken 1998; Gray 1998; Scharpf 1999). Economic globalization creates a more affluent world for some at the expense of growing poverty for others. That poverty, however, is no longer confined to the South, the developing world, but is on the rise in sectors of the affluent North as well (Birdsall 1998; UNDP 1999).

Furthermore, globalization, it is argued, is responsible for the growing globalization of poverty, not simply inequality. Within OECD economies, unemployment and social exclusion have increased as many low-skilled and semi-skilled jobs have been relocated to more profitable ventures in developing countries (Rodrik 1997; Castells

1998). This global economic restructuring brings with it a horizontal segmentation of the workforce, within rich and poor countries alike, into winners and losers from global capitalism (Castells 1997). This divides nations, forcing some into poverty, and erodes the basis of social solidarity. In advanced economies global competition undermines the social and political coalitions necessary for strong welfare regimes and policies of social protection while, in the developing world, SAPs overseen by the IMF and World Bank severely limit government welfare spending. Today the globalization of poverty, it is suggested, is increasingly a matter of vital and shared global concern (Dickson 1997). By dividing states and peoples it engenders a deepening fragmentation of world order and societies, generating the conditions for a more unstable world. Unless economic globalization is tamed, so the argument goes, a new barbarism will prevail as poverty, social exclusion and social conflict envelop the world.

What is required is a new global ethic which recognizes 'a duty of care' beyond borders, as well as within them, and a global new deal between rich and poor states. This involves rethinking social democracy as a purely national project, recognizing that if it is to remain effective in a globalizing economy, it has to be embedded in a reformed and much stronger system of global governance which seeks to combine human security with economic efficiency (Held 1995; Giddens 1999; UNDP 1999). A reconstituted social democratic project requires the coordinated pursuit of national, regional and global programmes to regulate the forces of economic globalization – to ensure, in other words, that global markets begin to serve the world's peoples rather than vice versa. Extending social democracy beyond borders also depends on strengthening solidarities between those social forces, in different regions of the world, that seek to contest or resist the terms of contemporary economic globalization. Just as the Bretton Woods system established a world economic order conducive to the pursuit of national social democracy, a new global (social democratic) compact is required, argue many globalists, in order to tame the forces of economic globalization and to create a more just and humane world order.

The challenge of enduring inequality

To the sceptics, especially of a traditional Marxist disposition, the prospect of a global New Deal is decidedly utopian. While acknowledging that contemporary capitalism is creating a more divided and unruly world, it is, many would argue, sheer political naivety to assume that those states, corporations and social forces that benefit most from the present liberal world order are ever likely to consent to its effective reform, let alone its transformation (Callinicos et al. 1994; Burbach et al. 1997). In this account, core and periphery – First World and Third World – remain very much a fundamental feature of the current world order. Rather than international capital creating 'one world' it has been accompanied by deepening global inequality through the marginalization of most Third World economies, as trade and investment flows among OECD economies intensify to the exclusion of much of the rest of the globe. Rather than a new global division of labour, this radical sceptical account points to a deepening North–South fracture (Burbach et al. 1997).

Central to this account is a conception of contemporary economic internationalization as a new mode of Western imperialism. Today 50 per cent of the world's population and two-thirds of its governments are bound by the disciplines of the IMF or the World

Bank (Pieper and Taylor 1998). As the East Asian crisis demonstrated, even the most affluent industrializing states are subject to the rule of G7 governments, particularly the US. Economic internationalization reinforces, rather than replaces, historical patterns of dominance and dependence such that the possibilities for real development remain effectively blocked. As poverty increases, the conflict between North and South deepens, while the affluent West, through various mechanisms from NATO to the World Bank, resorts to a form of 'global riot control' to consolidate its power and secure its economic fortunes. The internationalization of capital is creating an increasingly unruly and violent world in which poverty, deprivation and conflict are the daily reality for most of the world's peoples. In this context, reforming the architecture of the present economic order is a futile gesture when what is required to end imperialism is national revolutionary change in both the metropoles and the periphery. Only a socialist international order, in which socialist states are the essential building blocks, can eradicate global poverty through the determined redistribution of wealth and privilege (Callinicos et al. 1994).

By contrast, those sceptics of a more realist disposition regard such prescriptions as pure idealism, if not fantasy, in a world that has recently witnessed the complete collapse of state socialism. The problem of global inequality, they suggest, is actually one of the more intractable international issues on the global agenda and one which denies effective resolution (Krasner 1985). In this respect, while they may concede that economic internationalization is associated with a growing polarization between rich and poor states, they do not consider it to be the sole, or even primary, cause of growing inequality. National factors, from resource endowments to economic policies, are just as, if not more, important as determinants of the pattern of global inequality (Gilpin 1987). To presume that it can be moderated, let alone eradicated, through coordinated international intervention, or the creation of a socialist world order, is a categorical mistake. For inequality is inscribed in the very structure of world order since a global hierarchy of power is a consequence of a system which ranks states according to their national economic and military endowments (Gilpin 1981; Krasner 1985; Clark 1989; Krasner 1993; K. W. Thompson 1994). Moreover, the hierarchy of power, realists argue, is essential to the maintenance of a stable international order, since in an anarchic – that is, self-help – states system peace and security ultimately depend on the willingness of the most powerful states to police the system. Hierarchy, and thereby inequality, is a vital ingredient of the realist conception of world order, and the basis for effective international governance (Woods 1999). Moderating global inequalities may be a moral aspiration but it is not necessarily a rational one if it undermines the principal basis of international order. Nor, in a system in which states constantly struggle to maintain their power and influence over others, is it a feasible aspiration. Multilateral attempts to redress global inequalities, by taming the power of global markets, are doomed necessarily to failure, since the weak have no effective means to coerce the strong into taking actions which by definition threaten their power and wealth (Krasner 1985). For these reasons, among others, sceptics express a certain antipathy towards, and reservations about, grand projects to establish a more equal and just world order (Woods 1999). Paradoxically, they reason, such a world order is likely to be neither more secure nor more peaceful than the present unjust one. This does not mean that those of a realist persuasion necessarily regard rising inequality as either morally defensible or politically sustainable in the long run, but they consider that it remains a problem without any effective means of international resolution (Krasner 1985).

It is only within the borders of the nation-state – the nation as a moral community of fate – that legitimate and effective solutions to the problem of global inequality can be realized. Such solutions will always be partial and limited since governments cannot realistically aspire to redress all the external sources of domestic inequality. Although international cooperation between states may make it feasible to redress some of the worst excesses of the global market, in the end inequalities can only be moderated successfully and legitimately through the apparatus of national welfare regimes and the determined pursuit of national wealth and economic power. National governments, conclude the sceptics, remain the only proper and proven structures for mediating and redressing the worst consequences of uneven economic internationalization and, thereby, realizing the 'good community' (Hirst and Thompson 1999).

VI World Orders, Normative Choices

Throughout the modern period concepts of the political good have generally been elaborated at the level of state institutions and practices; the state has been at the intersection of intellectually and morally ambitious conceptions of political life (Dunn 1990: 142–60). Political theory, by and large, has taken the nation-state as a fixed point of reference and has sought to place the state at the centre of interpretations of the nature and proper form of the political good. Relations among states have of course been analysed; but they have rarely been examined, especially in recent times, as a central element of political theory and political philosophy. The central element has been the territorial political community and its many possible relations to what is desirable or politically good.

The ethically bounded political community

The theory and practice of liberal democracy has added important nuances to this position. For within the framework of liberal democracy, while territorial boundaries and the nation-state demarcate the proper spatial limits of the political good, the articulation of the latter is directly linked to the citizenry. Theories of the modern state tend to draw a sharp contrast between the powers of the state and the power of the people (Skinner 1989). For theorists of the state such as Hobbes, the state is the supreme political reference point within a specific community and territory; it is independent of subjects and rulers, with distinctive political properties (1968: chs 16–19). By contrast, theorists of democracy tend to affirm the idea of the people as the active sovereign body with the capacity, in principle, to make or break governments. As Locke bluntly put it, 'the *Community* perpetually *retains a Supream Power*' over its lawmakers and legislature (1963: 413; see also 1963: 477). The political good inheres in, and is to be specified by, a process of political participation in which the collective will is determined through the medium of elected representatives (Bobbio 1989: 144). Rightful power or authority, that is, sovereignty, is vested in the people, subject to various entrenched rules, procedures and institutions which constitute national constitutional agreements and legal traditions. The democratic good unfolds in the context of these delimiting or self-binding mechanisms (Holmes 1988; Dahl 1989).

The theory of the political good in the modern territorial polity rests on a number of assumptions which repay an effort of clarification (see Miller 1999). These are that a political community is properly constituted and bounded when:

1 Its members have a common socio-cultural identity; that is, they share an understanding, explicit or implicit, of a distinctive culture, tradition, language and homeland, which binds them together as a group and forms a (if not the) basis (acknowledged or unacknowledged) of their activities.
2 There is a common framework of 'prejudices', purposes and objectives that generates a common political ethos; that is, an imagined 'community of fate' which connects them directly to a common political project – the notion that they form a people who should govern themselves.
3 An institutional structure exists – or is in the process of development – which protects and represents the community, acts on its behalf and promotes the collective interest.
4 'Congruence' and 'symmetry' prevail between a community's 'governors' and 'governed', between political decision-makers and decision-takers. That is to say, national communities exclusively 'programme' the actions, decisions and policies of their governments, and the latter determine what is right or appropriate for their citizens.
5 Members enjoy, because of the presence of conditions 1–4, a common structure of rights and duties, that is, they can lay claim to, and can reasonably expect, certain kinds of equal treatment, that is, certain types of egalitarian principles of justice and political participation.

According to this account, which in this context can be referred to as the sceptical analysis of the political good, appropriate conceptions of what is right for the political community and its citizens follow from its cultural, political and institutional roots, traditions and boundaries. These generate the resources – conceptual, ethical and organizational – for the determination of its fate and fortunes. Underpinning this understanding of the bounded community is a principle of justification which includes a significant communitarian line of thought: ethical discourse cannot be detached from the 'form of life' of a community; the categories of political discourse are integral to a particular tradition; and the values of such a community take precedence over individual or global requirements (Walzer 1983; Miller 1988; MacIntyre 1981, 1988).

A global ethic

Globalists take issue with each of the above propositions, concluding that the political good today can only be disclosed by reflection on the diversity of the 'communities of fate' to which individuals and groups belong, and the way in which this diversity is reinforced by the political transformations globalization has brought in its wake. According to this globalist interpretation, the political good is entrenched in overlapping communities, and in an emergent transnational civil society and global polity. Disputes about the political good should be disputes about the nature and proper form of the developing global order. The basis of this globalist view can be grasped from a critique of the above five points.

First, shared identity in political communities historically has been the result of intensive efforts of political construction; it has never been a given (see pp. 14–16; cf. Gellner 1983; B. Anderson 1983; Smith 1986, 1995). Even within the boundaries of old-established communities, cultural and political identity is often disputed by and across social classes, gender divisions, local allegiances, ethnic groupings and the generations. The existence of a shared political identity cannot simply be read off vociferously proclaimed symbols of national identity. The meaning of such symbols is contested and the 'ethos' of a community frequently debated. The common values of a community may be subject to intense dispute. Justice, accountability, the rule of law and welfare are just a few terms around which there may appear to be a shared language, and yet fiercely different conceptions of these may be present (Held 1991: 11–21). In fact, if by a political consensus is meant normative integration within a community, then it is all too rare (Held 1996: part 2; and see below). Political identity is only by exception, for instance during wars, a singular, unitary phenomenon. Moreover, contemporary reflexive political agents, subject to an extraordinary diversity of information and communication, can be influenced by images, concepts, lifestyles and ideas from well beyond their immediate communities and can come to identify with groupings beyond their borders – ethnic, religious, social and political (J. B. Thompson 1995; Held et al. 1999: ch. 8; Keck and Sikkink 1998). And while there is no reason to suppose that they will uncritically identify with any one of these self-chosen ideas, commitments or relations may well be more important for some people's identity than 'membership in a community of birth' (J. Thompson 1998: 190; cf. Giddens 1991; Tamir 1993). Cultural and political identity today is constantly under review and reconstruction.

Second, the argument that locates the political good firmly within the terrain of the nation-state fails to consider or properly appreciate the diversity of political communities individuals can value; and the fact that individuals can involve themselves coherently in different associations or collectivities at different levels and for different purposes (J. Thompson 1998). It is perfectly possible, for example, to enjoy membership and voting rights in Scotland, the UK and Europe without necessarily threatening one's identification or allegiances to any one of these three political entities (see Archibugi et al. 1998). It is perfectly possible, in addition, to identify closely with the aims and ambitions of a transnational social movement – whether concerned with environmental, gender or human rights issues – without compromising other more local political commitments. Such a pluralization of political orientations and allegiances can be linked to the erosion of the state's capacity to sustain a singular political identity in the face of globalization. In the first instance, globalization is weakening the state's ability to deliver the goods to its citizens, thus eroding its legitimacy and the confidence of its citizens in its historic legacy. At the same time, the globalization of cultural processes and communications is stimulating new images of community, new avenues of political participation and new discourses of identity. Globalization is helping to create new communication and information patterns and a dense network of relations linking particular groups and cultures to one another, transforming the dynamics of political relations, above, below and alongside the state. Increasingly, successful political communities have to work with, not against, a multiplicity of identities, cultures and ethnic groupings. An overlapping consensus, which might underpin such communities, is often fragile and based purely on a commitment to common procedures – for instance, procedural mechanisms for the resolution of conflict – not a set of substantive, given values. A national political ethos may, at best, be skin-deep.

Third, globalization has 'hollowed out' states, undermining their sovereignty and autonomy. State institutions and political agents are increasingly like 'zombies', acting out the motions of politics but failing to determine any substantive, welfare-enhancing public good (Beck 1992, 1997). Contemporary political strategies involve easing adaptation to world markets and transnational economic flows. Adjustment to the international economy – above all, to global financial markets – becomes a fixed point of orientation in economic and social policy. The 'decision signals' of these markets, and of their leading agents and forces, become a, if not the, standard of rational decision-making. This position is linked, moreover, to the pursuit of distinctive supply-side measures – above all, to the use of education and training as tools of economic policy. Individual citizens must be empowered with cultural and educational capital to meet the challenges of increased (local, national, regional, global) competition and the greater mobility of industrial and financial capital. States no longer have the capacity and policy instruments they require to contest the imperatives of global economic change; instead, they must help individual citizens to go where they want to go via provision of social, cultural and educational resources. The terms of reference of public policy are set by global markets and corporate enterprise. The pursuit of the public good becomes synonymous with enhancing adaptation to this private end. Accordingly, the roles of the state as protector and representative of the territorial community, as a collector and (re)allocator of resources among its members, and as a promoter of an independent, deliberatively tested shared good are all in decline.

Fourth, the fate of a national community is no longer in its own hands. Regional and global economic, environmental and political processes profoundly redefine the content of national decision-making. In addition, decisions made by quasi-regional or quasi-supranational organizations such as the EU, WTO or the North Atlantic Treaty Organization (NATO) diminish the range of political options open to given national 'majorities'. In a similar vein, decisions by particular states – not just the most economically or militarily powerful nations – can ramify across borders, circumscribing and reshaping the political terrain. National governments by no means determine what is right or appropriate for their own citizens (Offe 1985). National policies with respect to interest rates, the harvesting of rainforests, the encouragement or restriction of the growing of genetically modified food, arms procurement and manufacture, incentive provisions to attract inward investment by multinational companies, along with decisions on a huge range of additional public matters from AIDS to the problems faced by a post-antibiotic culture, can have major consequences for those in neighbouring and distant lands. Political communities are thus embedded in a substantial range of processes which connect them in complex configurations.

Fifth, national communities are locked into webs of regional and global governance which alter and compromise their capacity to provide a common structure of rights, duties and welfare for their citizens. Regional and global processes, organizations and institutions undercut, circumscribe and delimit the kinds of entitlements and opportunities national states can offer and deliver. From human rights to trade regimes, political power is being rearticulated and reconfigured. Increasingly, contemporary patterns of globalization are associated with a multilayered system of governance, the diffusion of political power, and a widening gap between the influence of the richest and poorest communities. A complex constellation of 'winners' and 'losers' emerges. Locked into an array of geographically diverse forces, national governments are having to reconsider their roles and functions. Although the intensification of regional and global political relations has diminished the powers of national governments, it is recognized ever more that the nurturing and enhancement of the public good requires coordinated multilateral action, for instance, to prevent global recession and enhance sustainable growth, to protect human rights and intercede where they are grossly violated, to act to avoid environmental catastrophes such as ozone depletion or global warming. A shift is taking place from government to multilevel global governance. Accordingly, the institutional nexus of the political good is being reconfigured.

Each of the five propositions set forth by the sceptics – the theorists and advocates of the modern nation-state (see p. 33) – can be contrasted with positions held by the globalists. Thus, the political community and the political good need, on the globalists' account, to be understood as follows:

1 Individuals increasingly have complex loyalties and multilayered identities, corresponding to the globalization of economic and cultural forces and the reconfiguration of political power. The movements of cultural goods across borders, hybridization and the intermingling of cultures create the basis of a transnational civil society and overlapping identities – a common framework of understanding for human beings, which progressively finds expression in, and binds people together into, interlocking collectivities capable of constructing and sustaining transnational movements, agencies and legal and institutional structures.
2 The continuing development of regional, international and global flows of resources and networks of interaction, along with the recognition by growing numbers of people of the increasing interconnectedness of political communities in diverse domains – including the social, cultural, economic and environmental – generate an awareness of overlapping 'collective fortunes' which require collective solutions. Political community begins to be reimagined in both regional and global terms.
3 An institutional structure exists comprising elements of local, national, regional and global governance. At different levels, individual communities (albeit often imperfectly) are protected and represented; their collective interests require both multilateral advancement and domestic (local and national) adjustment if they are to be sustained and promoted.
4 Complex economic, social and environmental processes, shifting networks of regional and international agencies, and the decisions of many states and private organizations cut across spatially delimited, national locales with determinate consequences for their political agendas and strategic choices. Globalization decisively alters what it is that a national community can ask of its government, what politicians can promise and effectively deliver, and the range of people(s) affected by governmental actions. Political communities are 'reprogrammed'.
5 The rights, duties and welfare of individuals can only be adequately entrenched if, in addition to their proper articulation in national constitutions, they are underwritten by regional and global regimes, laws and institutions. The promotion of the political good and of egalitarian principles of justice and political participation are rightly pursued at regional and global levels. Their conditions of possibility are inextricably linked to the establishment and development of robust transnational organizations and institutions of regional and global governance. In a global age, the latter are the necessary basis of cooperative relations and just conduct.

In contradistinction to the conception of the political good promulgated by advocates of the modern nation-state, what is right for the individual political community and its citizens, in the globalists' account, must follow from reflection on the processes which generate an intermingling of national fortunes and fates. The growing fusion of worldwide economic, social, cultural and environmental forces requires a rethinking of the politically and philosophically 'isolationist' position of the communitarians and sceptics. For the contemporary world 'is not a world of closed communities with mutually impenetrable ways of thought, self-sufficient economies and ideally sovereign states' (O'Neill 1991: 282). Not only is ethical discourse separable from forms of life in a national community, but it is developing today at the intersection and interstices of overlapping communities, traditions and languages. Its categories are increasingly the result of the mediation of different cultures, communication processes and modes of understanding. There are not enough good reasons for allowing, in principle, the values of individual political communities to trump or take precedence over global principles of justice and political participation.

Of course, the globalists, like the sceptics, often have very different conceptions of what exactly is at stake here, that is, they hold very different views of what the global order should be like and the moral principles which might inform it. But they draw a clear-cut distinction between their conception of where the political good inheres and that of the sceptics. While for the latter ethical discourse is, and remains, firmly rooted in the bounded political community, for the former it belongs squarely to the world of 'breached boundaries' – the 'world community' or 'global village'.

Conclusion

The great globalization debate, summarized in table 1, identifies some of the most fundamental issues of our time. Despite a propensity for hyperbole on both sides, the protagonists have generally elaborated highly important and carefully considered arguments. These pose key questions about the organization of human affairs and the trajectory of global social change. They also raise matters which go to the centre of political discussion, illuminating some of the strategic choices societies confront and the constraints which define the possibilities of effective political action.

Are the two main positions fundamentally at odds and contradictory in all respects, or is a productive synthesis possible? It is not the purpose of this Introduction, or of the volume for that matter, to answer this question. Indeed, we have sought to do this at length elsewhere and it would take us far beyond the scope of this volume to map out this terrain here (see Held et al. 1999; Held and McGrew 2002). A number of points, however, are worth emphasizing by way of a conclusion.

In the first instance, the debate raises profound questions of interpretation. But while it highlights that facts certainly do not speak for themselves, and depend for their meaning on complex interpretative frameworks, it would be wrong to conclude that the marshalled evidence is of secondary importance. There are clashes involving the conceptualization and interpretation of some of the most critical evidence. However, often the kind of evidence proffered by both sides differs markedly. For example, sceptics put primary emphasis on the organization of production and trade (stressing the geographical rootedness of MNCs and the marginal changes in trade–GDP ratios over the twentieth century), while globalists focus on financial deregulation and the explosive growth of global financial markets over the last twenty-five years. Sceptics stress the continuing primacy of the national interest and the cultural traditions of national communities which sustain their distinct identity, while globalists point to the growing significance of global political problems – such as worldwide pollution, global warming and financial crises – which create a growing sense of the common fate of humankind. A considered response to the debate would have to weigh all these considerations before coming to a settled view.

Table 1 The great globalization debate: in sum

	Sceptics	Globalists
1 Concepts	Internationalization not globalization Regionalization	One world, shaped by highly extensive, intensive and rapid flows, movements and networks across regions and continents
2 Power	The nation-state rules Intergovernmentalism	Erosion of state sovereignty, autonomy and legitimacy Decline of nation-state Rise of multilateralism
3 Culture	Resurgence of nationalism and national identity	Emergence of global popular culture Erosion of fixed political identities Hybridization
4 Economy	Development of regional blocs Triadization New imperialism	Global informational capitalism The transnational economy A new global division of labour
5 Inequality	Growing North–South divide Irreconcilable conflicts of interest	Growing inequality within and across societies Erosion of old hierarchies
6 Order	International society of states Political conflict between states inevitably persists International governance and geopolitics Primacy of the ethically bounded community	Multilayered global governance Global civil society Global polity Cosmopolitan orientations

Secondly, although there are, of course, very significant differences between (and within) each camp, there is some common ground. The debate does not simply comprise ships passing in the night. Indeed, both sides would accept that:

1 There has been some growth in recent decades in economic interconnectedness within and among regions, albeit with multifaceted and uneven consequences across different communities.
2 Interregional and global (political, economic and cultural) competition challenges old hierarchies and generates new inequalities of wealth, power, privilege and knowledge.
3 Transnational and transborder problems, such as the spread of genetically modified foodstuffs, mass terrorism and money laundering, have become increasingly salient, calling into question the traditional role, functions and institutions of accountability of national government.
4 There has been an expansion of international governance at regional and global levels – from the EU to the WTO – which poses significant normative questions about the kind of world order being constructed and whose interests it serves.

5 These developments require new modes of thinking about politics, economics and cultural change. They also require imaginative responses from politicians and policy-makers about the future possibilities and forms of effective political regulation and democratic accountability.

Thirdly, we believe that the debate highlights that there is much to be learned from both sides; it would be implausible to maintain that either side comprises mere rhetoric and ideology. The sceptical case has significant historical depth and needs to be carefully dissected if a globalist position is to be adequately defended. Many of the empirical claims raised by the sceptics' arguments, for example, concerning the historical significance of contemporary trade and direct investment flows, require detailed and rigorous examination. But having said that, globalism, in its various forms, does illuminate important transformations going on in the spatial organization of power – the changing nature of communication, the diffusion and speed-up of technical change, the spread of capitalist economic development, and so on – even if its understanding of these matters sometimes exaggerates their scale and impact.

Finally, the political issues raised by the debate are profound and merit the most serious consideration. We would like to reflect briefly on these now, and specify what we think of as the core challenges posed by globalization and its critics – challenges that will remain at the centre of the great globalization debate for some time to come.

The challenges of globalization

(1) Contemporary processes of globalization and regionalization create overlapping networks of power which cut across territorial boundaries; as such, they put pressure on, and strain, a world order designed in accordance with the Westphalian principle of exclusive sovereign rule over a bounded territory.

(2) The locus of effective political power can no longer be assumed to be simply national governments – effective power is contested and bartered by diverse forces and agencies, public and private, at national, regional and international levels. Moreover, the idea of a self-determining people – or of a political community of fate – can no longer be located within the boundaries of a single nation-state. Some of the most fundamental forces and processes which determine the nature of life-chances are now beyond the reach and control of individual nation-states.

A distinctive aspect of this is the emergence of 'global politics' – the increasingly extensive form of political activity (see section II of this Introduction). Political decisions and actions in one part of the world can rapidly acquire worldwide ramifications. Sites of political action and/or decision-making can become linked through rapid communications into complex networks of political interaction. Associated with this 'stretching' of politics is a frequent intensification of global processes such that 'action at a distance' permeates the social conditions and cognitive worlds of specific places or policy communities (Giddens 1990: ch. 2). As a consequence, developments at the global level – whether economic, social or environmental – can acquire almost instantaneous local consequences, and vice versa.

The idea of global politics challenges the traditional distinctions between the domestic and the international, and between the territorial and the non-territorial, as embedded in modern conceptions of 'the political' (see Held et al. 1999: chs 1, 2 and 8). It highlights the richness and complexity of the interconnections which transcend states and societies in the global order. Global politics today, moreover, is anchored not just in traditional geopolitical concerns but also in a large diversity of economic, social and ecological questions. Pollution, drugs, human rights and terrorism are amongst an increasing number of transnational policy issues which cut across territorial jurisdictions and existing political alignments, and which require international cooperation for their effective resolution.

Nations, peoples and organizations are linked, in addition, by many new forms of communication which range across borders. The revolution in micro-electronics, in information technology and in computers has established virtually instantaneous worldwide links, which, when combined with the technologies of the telephone, television, cable and satellite, have dramatically altered the nature of political communication. The intimate connection between 'physical setting', 'social situation' and politics, which distinguished most political associations from premodern to modern times, has been ruptured; the new communication systems create new experiences, new modes of understanding and new frames of political reference independently of direct contact with particular peoples, issues or events.

In the past, nation-states principally resolved their differences over boundary matters by pursuing 'reasons of state' backed by diplomatic initiatives and, ultimately, by coercive means. But this power logic is singularly inadequate to resolve the many complex issues, from economic regulation to resource depletion and environmental degradation, which engender – at seemingly ever greater speeds – an intermeshing of 'national fortunes'. We are, as Kant most eloquently put it, 'unavoidably side by side'. In a world where powerful states make decisions not just for their peoples but for others as well, and where transnational actors and forces cut across the boundaries of national communities in diverse ways, the questions of who should be accountable to whom, and on what basis, do not easily resolve themselves.

(3) Existing political institutions, national and international, are weakened by three crucial regulatory and political gaps (Kaul et al. 1991: xixff.):

- a jurisdictional gap – the discrepancy between a regionalized and globalized world and national, discrete units of policy-making, giving rise to the problem of externalities such as the degradation of the global commons and who is responsible for them;
- a participation gap – the failure of the existing international system to give adequate voice to many leading global actors, state and non-state; and
- an incentive gap – the challenges posed by the fact that, in the absence of any supranational entity to regulate the supply and use of global public goods, many states will seek to free ride and/or fail to find durable collective solutions to pressing transnational problems.

(4) These political disjunctures are conjoined by an additional gap – what might be called a 'moral gap'; that is, a gap defined by:

- a world in which more than 1.2 billion people live on less than a dollar a day; 46 per cent of the world's population live on less than $2 a day; and 20 per cent of the world's population enjoy over 80 per cent of its income;
- commitments and values of, at best, 'passive indifference' to this, marked by UN expenditure per annum of $1.25 billion (minus peace-keeping), US per annum confectionery

> expenditure of $27 billion, US per annum alcohol expenditure of $70 billion, and US per annum expenditure on cars that is through the roof (more than $550 billion).

This is not an anti-America statement, of course. Equivalent EU figures could have been highlighted.

Seemingly obvious questions arise. Would anyone freely choose such a state of affairs? Would anyone freely choose a distributional pattern of scarce goods and services, leading to hundreds of millions of people suffering serious harm and disadvantage independent of their will and consent (and 50,000 dying every day of malnutrition and poverty related causes), if these individuals did not already know that they had a privileged stake in the current social hierarchy? Would anyone freely endorse a situation in which the annual cost of supplying basic education to all children is $6 billion, of water and sanitation $9 billion, and of basic health to all $13 billion, while annually $4 billion is spent in the USA on cosmetics, nearly $20 billion on jewellery and $17 billion (in the US and Europe) on pet food?* Before an impartial court of moral reason (testing the reasonable rejectability of claims), it is hard to see how an affirmative answer to these questions could be defended. That global inequalities spark conflict and contestation can hardly be a surprise, especially given the visibility of the world's lifestyles in an age of mass media.

(5) There has been a shift from relatively discrete national communication and economic systems to their more complex and diverse enmeshment at regional and global levels, and from government to multilevel governance, as the globalists contend. This can be illustrated by a number of developments, including, most obviously, the rapid emergence of multilateral agencies and organizations. New forms of multilateral politics have been established involving governments, IGOs, a wide variety of transnational pressure groups and INGOs (see Union of International Associations 2001). In addition, there has been a very substantial development in the number of international treaties in force, as well as in the number of international regimes, altering the situational context of states (Held et al. 1999: chs 1–2). Political communities can no longer be conceived, if they ever could with any degree of accuracy, as simply discrete worlds or as self-enclosed political spaces; they are enmeshed in complex structures of overlapping forces, relations and networks.

Yet, as the sceptics argue, there are few grounds for thinking that a parallel 'globalization' of political identities has taken place. One exception to this is to be found among the elites of the global order – the networks of experts and specialists, senior administrative personnel and transnational business executives – and those who track and contest their activities – the loose constellation of social movements (including the anti-globalization movement), trade unionists and (a few) politicians and intellectuals. But these groups are not typical. Thus, we live with a challenging paradox – that governance is becoming increasingly a multilevel, intricately institutionalized and spatially dispersed activity, while representation, loyalty and identity remain stubbornly rooted in traditional ethnic, regional and national communities (Wallace 1999).

One important qualification needs to be added to the above arguments, one which focuses on generational change. While those who have some commitment to the global

* These figures are drawn from the US economic census (1997) and from http://www.wwlearning.co.uk/news/features 0000000 354-asp.

order as a whole and to the institutions of global governance constitute a distinct minority, a generational divide is evident. Compared to the generations brought up in the years prior to 1939, those born after World War II are more likely to see themselves as cosmopolitans, to support the UN system and to be in favour of the free movement of migrants and trade. Examining Eurobarometer data and findings from the World Values Survey (involving more than seventy countries), Norris concludes that 'cohort analysis suggests that in the long term public opinion is moving in a more international direction' (2000: p. 175). Generations brought up with Yahoo, MTV and CNN affirm this trend and are more likely to have some sense of global identification, although it remains to be seen whether this tendency crystallizes into a majority position and whether it generates a clearly focused political orientation, north, south, east and west.

Hence, the shift from government to multilayered governance, from national economies to economic globalization, is a potentially unstable shift, capable of reversal in some respects and certainly capable of engendering a fierce reaction – a reaction drawing on nostalgia, romanticized conceptions of political community, hostility to outsiders (refugees) and a search for a pure national state (e.g., in the politics of Haider in Austria, Le Pen in France and so on). But this reaction itself is likely to be highly unstable, and perhaps a relatively short- or medium-term phenomenon. To understand why this is so, nationalism has to be disaggregated.

(6) As 'cultural nationalism', it is, and in all likelihood will remain, central to people's identity; however, as political nationalism – the assertion of the exclusive political priority of national identity and the national interest – it cannot deliver, as noted previously, many sought-after public goods without seeking accommodation with others, in and through regional and global collaboration (see pp. 39–40). In this respect, only an international or, better still, cosmopolitan outlook can meet the challenges of a more global period, characterized by overlapping communities of fate and multilevel/multilayered politics. Unlike political nationalism, cosmopolitanism registers and reflects the multiplicity of issues, questions, processes and problems which affect and bind people together, irrespective of where they were born or reside. Whether cosmopolitanism can ever rival nationalism as a great cultural force is, however, at best an open question. Excessive optimism here would be a mistake and underestimate the severe political difficulties that lie ahead (see Part VI of this volume).

The Reader elaborates on these issues and positions, drawing on the most sophisticated arguments from both sides of the debate. The quality and originality of the contributions are of the highest order and they offer, together, a comprehensive introduction to the globalization literature.

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1
A history of global trade

It is easy to take a given phenomenon and project backwards convincing oneself along the way that it has always been much as it is at present. It is particularly easy to do this with global trade, to kid oneself that today's highly integrated web of global trade must always have been much as it is at present. It is also easy to think that because high-income countries dominate today's world trade they must always have dominated global trade. But both impressions are a long way from the truth. Because these impressions are incorrect it is important to have an understanding of the evolution of global trade so one can have a proper context for the politics of it.

Although *integrated* global trade is a relatively new phenomenon, various forms of trade between different parts of the world have been in existence for a long time; in fact some types of global trade have existed for a very long time. Ivory from Africa has been discovered in Celtic graves in Britain. Volcanic glass mined in prehistoric times in present-day Turkey has been found throughout lands thousands of kilometres from the country.[1] What is new is the highly integrated nature of today's global trade. Today all continents receive goods and services from all other continents but that is something that has only happened over the past few centuries – before that there were only limited trade connections between continents.

Early continental trade networks

European colonisation around the world, which began in the sixteenth century, was the force that first linked together *all* the world's regional trade networks, but before the sixteenth century all continents had their own trade and in some limited instances some continents traded with other specific continents well before Europeans arrived on the scene.

In Asia early trade across the continent was considerably enhanced by the rise of Islam in the seventh century.[2] The spread of Islam meant that safe passage between strategic parts of the continent, such as between the Indian Ocean and the Mediterranean Sea, could be safely made for the first time since the fall of the Roman empire.[3]

In Africa a trade route that crossed the Sahara desert from West Africa to the Mediterranean meant that a connection between Africa and other continents existed a long time before the sixteenth century. The trade route was considerably enhanced by the arrival of camels into Africa in the first century.[4] Key commodities traded via this route were gold, slaves and salt.

In the Americas there was significant trade across its continents before the arrival of Europeans, although the trade was nowhere near as sophisticated as that in Asia, Europe or Africa.[5] The Aztec and Mayan empires conducted trade from about present-day Mexico through to present-day Nicaragua but the trade was limited by the fact that it was conducted separately from local commerce. It tended to focus on luxury goods and was always conducted overland rather than by sea.[6]

In Europe there was a limited amount of trade during the time of the Roman empire, which included the importation of a lot of grain from Egypt, but self-sufficiency was generally then the norm.[7] What trade there was within the continent collapsed after the fall of the Roman empire in the fifth century; later it became divided between the Muslim Ottoman empire in the east and the Christian west, and within the west between the Mediterranean south and the Atlantic north. Trade flourished much more in the Muslim parts of Europe; in the Christian parts rural self-sufficiency still tended to dominate.[8] Until the fifteenth century most European trade pivoted around the Mediterranean, but after that time it shifted to the Atlantic.[9]

Early trade links between continents

For more than two millennia there was limited trade between Europe, Asia and Africa. Trade is likely to have occurred between the three continents, in fact, as early as prehistoric times: the discovery of luxury items and jewellery made from amber, coral and cowrie shells throughout all three continents suggests there was limited trading between them carried on a very long time ago.[10]

Before the fourteenth century, trade contact between Europe and Asia mainly took place along the so-called Silk Road that was established in the third century and lasted through to the seventeenth century.[11] Much of the development of the Silk Road was pushed along by the spread of Islam.[12] Trade along the Silk Road mainly involved low-volume/high-profit luxury items such as jade, silk, porcelain and fine textiles. A complete journey along the Silk Road into China could take a long time – often requiring eighteen months to two years to complete.[13] The trade route started to decline between the tenth and thirteenth centuries, and it went into terminal decline in the seventeenth century when the Ming empire in China collapsed.[14] Its collapse stimulated an increase in long-distance maritime trade between the Middle East and India.[15] The swing towards sea-based trade made ports such as Genoa and Venice powerful: Venice had become the commercial centre of Europe by the fifteenth century.[16] Before this swing to Eurasian maritime trade, limited sea-based trade around the landmass had existed but only to a modest degree – as early as the first century the Mediterranean was linked to the Indian Ocean then later to South-East Asia.[17] European ships would take goods to modern-day Egypt, or Israel, then Muslim traders would take them overland to the Red Sea or the Persian Gulf; they would then be shipped on again to ports in India or China.[18]

Trade between Europe and Africa also stretches back a long way. By the eleventh century there were permanent international trading colonies in Syria, North Africa, Byzantium and Western Europe that linked the two continents.[19] By the fourteenth and fifteenth centuries Mediterranean cities such as Barcelona, Venice and Genoa were regularly trading with eastern Mediterranean centres[20] and there had long been trade across the Mediterranean that linked with the trans-Saharan trade route across Africa. The Ottoman empire was also a major conduit for trade between Africa and Europe.

Moves towards European international exploration and trade

During medieval times it seemed that the part of the world most likely eventually to link together all the world's separate continental trade networks was not Europe but China. Beginning in the tenth century the Chinese provinces of Guangdong and Fujian began to engage in a lot of international trade supported by an increasingly large and adventurous Chinese merchant fleet that was mainly based in the ports of Fuzhou, Quanzhou and Guangzhou.[21] Throughout the fourteenth and fifteenth centuries Chinese merchants sailed as far as the east coast of Africa and, some believe, even rounded the Cape of Good Hope.[22] The Chinese suddenly stopped their global exploration in 1433, however, partly because of internal disagreement about the wisdom of expansionism and partly because of the growing Mongol threat to their northern frontiers.[23] In contrast to the Chinese adventurousness, the medieval merchants of Europe were fairly inward-looking and conservative and conducted little trade with the rest of world; it would have seemed unlikely, during those times, that they would ever come to dominate global trade. By the fifteenth century, however, the merchants and mariners of Europe had become much more outward-looking. A key element in their new daring was the development of a type of fully rigged ship that combined the square-rigged tradition of northern Europe with the triangular (lateen) rigged tradition of southern Europe.[24] The new ships could sail closer to the wind, were faster, more manoeuvrable and more seaworthy than previous ships, and they required smaller crews.[25] These ships were known as 'caravels' and were crucial in enabling European exploration of the Atlantic for the first time.[26] When they were combined with better navigation techniques (which also combined northern and southern European traditions), and the establishment of maritime insurance, Europe was ripe to begin exploring the world. Advances in transport technology held the key to European exploration and, eventually, to the Europeans' establishment of a global trade network.

The Portuguese and the Spanish were particularly keen to begin exploiting the new potential that the improved ship design presented. By 1446 the Portuguese had colonised the Atlantic islands of Azores, Madeira, Cape Verde and Canary and were probing the Guinea coast of West Africa, establishing trading posts as they went that were particularly active in the trade of slaves and gold.[27] (Pioneering though the Portuguese undoubtedly were, it is generally forgotten that a full 2,000 years before the Portuguese the Phoenicians had sailed right around Africa.)[28] The Portuguese reached Sierra Leone in 1461, the Congo in 1483 then Bartholomew Diaz rounded the Cape of Good Hope in 1487. Five years later a navigator from Genoa, Christopher Columbus, left Europe, intending to open up a sea route to China and India. Having initially approached the Portuguese, but without success, Columbus was backed by the Spanish who were envious of the maritime success of the Portuguese. He reached Cuba and Haiti but thought he'd reached Japan. Whatever his delusions his 1492 voyage had monumental importance, beginning five centuries of European world domination via trade and colonisation. Six years after Columbus's voyage a Portuguese explorer, Vasco da Gama, reached the east coast of Africa and then India. Once da Gama set foot on the coast of India, Europe had closed its net around the Americas, Africa and Asia. Truly global trade now had the tentacles to reach every corner of the world. There was little doubt that the possibility of greater trade profits was a major motivator for the Portuguese and Spanish – authoritative records from the time make it clear that they would not sail to new lands unless they thought there was a good chance of making money.[29]

A major global economic change that the Portuguese and Spanish discoveries helped to bring on – whose effect is still very much with us today – was the rise of the nation-state. Before the fifteenth century nations as we know them today were relatively insignificant and it was cities that wielded most political power, but after the fifteenth century a new national consciousness began to grow.[30] Economic policies began to be based around the prosperity of nations instead of the prosperity of cities. The rise of nationalism brought with it the start of a trade philosophy known as 'mercantilism' which was a theory that thought it important for nations to secure a surplus of exports over imports.[31]

European global exploration

There was never any humility either in Europe's approach to the new lands it reached or in the way it tried to take over pre-existing local trading networks. From the very start there was local hostility towards the new European trade presence. Arab traders in Mozambique opposed da Gama's attempts to trade along the east coast of Africa, whilst Persians and Arabs resisted his attempts to trade in India.[32] The big advantage the Portuguese had over the Persians and Arabs, however, was their more sophisticated weaponry – an edge that Europe generally held over the rest of the world by the time of da Gama's voyage. Between the twelfth and fourteenth centuries European armaments had gone through quantum leaps in complexity and effectiveness through the development of weaponry such as the crossbow, the longbow and the pike as well as the reinvention of gunpowder (which had earlier been developed by the Chinese).[33] European kings had also developed tax bases that enabled them to finance this more expensive weaponry. Major empires before the modern European empires, such as the Moghul, Ottoman and Ming empires of Asia, had not combined warfare with trade but the Europeans had no compunction about doing so.[34] The result was that when West met East through da Gama's and Columbus's voyages the Europeans could always fall back on the power of the gun to force their way into local trading networks. In the sixteenth century the

Portuguese decided to wage all-out war on the Muslim traders of the Indian Ocean. The same approach was later used by the Dutch and English who would often heavily fortify their trading settlements. No real attempt was made by the Europeans to trade on local terms and it was a given that trade-related violence was acceptable. K. N. Chauduri, author of *Trade and Civilization in the Indian Ocean*, argues: 'the principle of armed trading introduced by the Portuguese conquistadors in the Indian Ocean was taken over by the Dutch and English East India companies without any attempt to find an explicit justification for the practice'.[35] The Spanish were no less violent in the Americas. The Europeans' forced domination of trade in Asia took longer to have the desired effect than their forced domination of trade in the Americas but in the end they won out in both continents. A large part of the reason why Asia took longer to conquer was the fact that Asians shared some of the same Eurasian disease pool as the Europeans and were not devastated by new diseases as the South Americans were; their organisational skills were also a better match for those of the Europeans.[36] Basically, global trade has never been a meeting of equals and that remains as much the case today as it was in the sixteenth century.

World trade in the sixteenth and seventeenth centuries

By the end of the sixteenth century the Spanish dominated trade with the Americas, apart from Brazil, and the Portuguese dominated trade with Africa, Asia and Brazil. Global trade experienced a sharp rise between the mid-fifteenth century and the mid-seventeenth century[37] largely powered by this Iberian domination of global trade links. But by today's standards the trade links were fairly tenuous. A voyage from Lisbon to the west coast of India could take anywhere from six to eighteen months, and no more than about a dozen Portuguese ships did the voyage each year.[38] The voyage from Spain to the Americas only took about half that time, but in the early sixteenth century no more than about one hundred ships completed the voyage each year.[39]

Gold, slaves and pepper dominated trade with Africa while pepper, spices and drugs dominated trade with Asia; sugar and tobacco dominated trade with the Americas. Early in the sixteenth century the Spanish and Portuguese established sugar plantations in the Caribbean and South America; sugar growing is very labour-intensive and its establishment in the Americas was responsible for a sharp rise in the shameful importation of African slaves to the Americas. Roughly 20 million slaves were shipped out of Africa between the mid-fifteenth and mid-seventeenth centuries; about two thirds of those who reached the Americas were used to grow sugar.[40] The Americas were less self-sufficient and more subservient to Europe than Asia was which resulted in European trade surpluses with the Americas but persistent European trade deficits with Asia. To finance the Asian trade deficits, the Spanish and Portuguese took a lot of gold and silver out of the Americas; in fact between 1500 and 1800 some 85 per cent of all the silver mined around the world, and 70 per cent of all the gold mined around the world, came out of the Americas[41] with most of it ending up in Asia. The use of this gold and silver to finance European trade radically changed the face of global trade. Until the sixteenth century most global trade had been done by barter; the South American gold and silver monetarised world trade in a way it had never been before.[42] From the very start Europeans turned their colonies into raw material suppliers and kept most of the value-adding in Europe – another characteristic still very much with us today.

The Spanish and Portuguese domination of Asian and American trade was shortlived. By the early seventeenth century, Spanish expansion throughout the Americas had stalled and Dutch and British traders had taken over much of Portugal's trade with Asia. Part of the reason for the Dutch and British takeover was the superior design of their ships which could move faster and perform better in battle than Spanish or Portuguese ships.[43] The Dutch and British also had a more central geographical position in Europe than the Spanish and Portuguese.

One should not assume, however, simply because Europe dominated trade between continents in the sixteenth century that it was necessarily responsible for producing a lot of the world's traded goods and services. In the sixteenth century India had between 20 and 25 per cent of the world's population and its share of global trade was roughly the same.[44] In fact India was probably the largest exporter in the world between 1500 and 1700.[45]

In Asia throughout the entire seventeenth century as much as three-quarters of Asian exports to Europe were made up of pepper, spices, textiles and silks.[46] Of these, pepper was the main export, particularly during the first half of the seventeenth century. During the early seventeenth century the Dutch had taken over the Portuguese trade in pepper and spices. Most of their trade conquest was carried on through the Dutch East India Company. Formed in 1602, the Dutch East India Company was one of the world's first transnational corporations – until its formation, money had been raised for each individual trade voyage to Asia but its establishment allowed permanent capital to be raised for Asian trade thereby making it more secure. Later in the sixteenth century the English formed their equally formidable English East India Company; the two transnational corporations controlled most of the European trade with Asia until well into the eighteenth century. Eventually there was a plethora of European colonial trade companies which included: the Royal Company of Havana (Spanish), the Royal Company of San Fernando (Spanish), the Royal Company of Barcelona (Spanish), the Hudson Bay Company (British), The Royal African Company (British), the French West India Company and the Franco-African Company. Not only did the Dutch and British displace the Portuguese, they also helped to end the overland Silk Road trade route between Europe and Asia.

The seventeenth century saw not only major changes in the management of global trade, but also major changes in its make-up. Significant changes in European tastes brought enormous changes in the continent's trade with both Asia and America. A major change in the trade with Asia took root in the early part of the century when the English East India Company introduced Indian-made cotton textiles to Britain. Throughout the century the British acquired an ever-growing taste for Indian cotton textiles which gradually ate into the traditional markets for linen and woollen textiles.[47] Another major change in tastes, which took root in the later part of the seventeenth century, was the increasing popularity of tea and coffee in Europe. Coffee took off a bit earlier than tea and was originally sourced from Yemen.[48] Tea initially mainly came from China and during much of the century the Chinese were reluctant to begin a major trade in it but by 1699 the English East India Company had established a tea factory in Canton.[49]

Just as the new European taste for tea, coffee and Indian cotton changed the make-up of Asian trade, a growing European taste for tobacco changed the make-up of trade with the Americas. During the seventeenth century European demand for tobacco grew to seemingly insatiable levels and tobacco cultivation became established in the Americas in much the same way that sugar cultivation had before it.[50] Until the middle of the eighteenth century tobacco and sugar accounted for a full three-quarters of all British imports from the Americas.[51] The surging popularity of both commodities increased the demand for slaves in the Americas, and by the late seventeenth century slaves had replaced gold as the commodity most purchased by Europeans in West Africa.[52] Over 6 million slaves were brought to the United States between 1701 and 1810, or about two-thirds of the total number that ever landed in the Western hemisphere.[53] Throughout the century the Dutch controlled much of the slave trade and had a large share of the overall trade with the Americas, but by the end of the eighteenth century the English were beginning to get the upper hand in the slave trade.

To generalise, between the voyages of da Gama and Columbus and the start of the Industrial Revolution in the eighteenth century, three types of global trade were dominant: slaves (from Africa), gold and silver (from the Americas) and drugs (coffee, tea, sugar, chocolate and tobacco from Asia and the Americas).[54]

As well as the specific changes in the trade between Europe, Asia, Africa and the Americas discussed above, there were some overarching developments throughout the seventeenth century that would eventually have a huge impact on global trade. Bills of exchange had been used since the Middle Ages, but during the second half of the seventeenth century their use became universal throughout Western and Central Europe. These allowed traders to shift money and credits from place to place without running the risks associated with transporting metal currency over vast distances.[55] Another major development was the discovery of the existence of atmospheric pressure, which would be crucial to the development of the steam engine in the eighteenth century. In the mid-seventeenth century Evangelista Torricelli and Otto van Guericke became the first Europeans to prove that atmospheric pressure existed, with von Guericke famously publicly demonstrating that two teams of horses could not separate two hemispheres that had had the air enclosed between them removed. Yet again changes in transport technology would be pivotal in the development of global trade.

Throughout the seventeenth century, relations between the new European trade giants of Holland and Britain were tense. They fought three wars, largely over trade supremacy, in 1652–54, 1664–67 and 1672–78. But by the end of the century a rapprochement had developed between the two countries aided by a marriage between their royal families.[56] By then, however, Britain was vying with France, not Holland, to be the dominant global trade power; Britain eventually prevailed after the final defeat of Napoleon in 1815.

World trade in the eighteenth century

If the sixteenth and seventeenth centuries had introduced new currents to global trade, the eighteenth century brought a tidal wave: in fact by the end of the century global trade had been completely transformed. The biggest change was the dawning of the Industrial Revolution, which coincided with the beginning of a major textile industry in Europe. In the 1760s the turning of cotton into thread was revolutionised by a new spinning machine developed in Britain by Richard Arkwright and the 'Spinning Jenny' invented by James Hargraves.[57] These machines became married to the ground-breaking steam engine invented by James Watt which went into full production in 1774. Watt's machine was a refinement of the atmospheric engines used to pump water from British mines originally invented by Thomas Savery in 1698 then considerably improved by Thomas Newcomen in 1712.[58] The marriage of the new steam and spinning technologies was consummated by the installation of a steam engine in a spinning factory in Nottinghamshire in 1785. This led to a radical reduction in the cost of spun yarn which by 1812 was only one-tenth of its cost three decades before.[59] Before the installation of the steam engine Indian cotton textiles had dominated world textile trade. At its peak India had produced over a quarter of all the world's cloth[60] but the introduction of the new steam engine in Britain devastated the large Indian manufacturers and brutally exposed India to the harsh new realities of global trade politics. This began the sorry tradition of a lot of global manufacturing value-adding being transferred from the poorer to the richer parts of the world.

The Industrial Revolution did much more than wipe out the Indian cotton textile manufacturing industry, it also radically changed the place of Europe in the global trade network. Until the Industrial Revolution the European market didn't necessarily dominate global trade. It was more of a facilitator than a driver of global trade. But once the Industrial Revolution gave Europe a major manufacturing and technological edge over the rest of the world it went from being a trade facilitator to being a generator of global trade and the centre of the global trade network. Global trade after the Industrial Revolution necessarily came to be increasingly channelled through Europe as the continent became the all-powerful beating heart of the world trade system. And the Industrial Revolution also radically changed commerce within Europe itself. Within Europe up until then, businesses were largely self-sufficient and used non-specialised labour; most workplaces took a product from its primary ingredients right through to its final form and most employees were involved with every stage of a product's production. But after the start of the Industrial Revolution European businesses and the labour force became more specialised with employees involved with only particular parts of the production process, and businesses increasingly doing only part of overall product development. This is another feature of global trade that is still very much with us today.

Not only did commerce become more specialised, it also became more productive. This created surpluses that had to be sold beyond local markets which drove a need to expand Europe's global trade network. The higher productivity created a new hunger for raw materials to feed the newly established factories of the Industrial Revolution which also drove a major expansion of Europe's trade.

Adam Smith's *Wealth of Nations*

The influence of the Industrial Revolution reached way beyond the make-up of British and European business. It coincided with the Enlightenment which put a new emphasis on rationality, science and the importance of the individual all of which were values crucial to the success of the Industrial Revolution. The new Enlightenment values created a new class of philosophers. Until then philosophy had been dominated by the Church which was often in league with the monarchy and the landowning nobility who together pushed a creed of divine rights, family values, loyalty to the crown and duty to one's country.[61] The Enlightenment philosophers, however, promoted a belief in rationality, cause-and-effect relationships, organisational efficiency and the entrepreneurial potential of the individual. One of the new breed of philosophers was Adam Smith, a Scottish national who originally studied theology. In 1776 Smith published his landmark opus, *An Inquiry into the Nature and Causes of the Wealth of Nations* (however during Smith's lifetime his reputation was based more on his six-volume *The Theory of Moral Sentiments* published between 1759 and 1790).[62] During the eighteenth century economics was considered a branch of philosophy, and Smith's *Wealth of Nations* book was as much an exploration of the human psyche as it was a study in what we would today consider economics. He argued that economic systems didn't have to rely on altruism and that they should instead capitalise on the self-interested motivation of individuals to get ahead. Smith even argued that mutual affection and support weren't necessary to hold a society together.[63] He said the collective pursuit of self-interest, if done in the right way, could generate enormous collective wealth and it was that that should hold societies together. The two best ways of generating collective wealth, he argued, were to respect the allocative efficiency of the free market and to have a high degree of specialisation in the workforce. He also argued there should be productive specialisation between countries which necessarily required free trade. Smith argued that in a free market producers are motivated by a sort of virtuous self-interest that sees them strive to make the most desirable goods at the most competitive prices – led by 'an invisible hand'.[64] He claimed that 'the more efficient distribution of resources brought about by unimpeded trade would raise productivity all around and thus increase everybody's purchasing power'.[65] Smith also said England would be a winner from trade if it imported goods that could be produced at lower prices in other countries.[66]

Smith's book was an instant success. Its first edition sold out within six months, and *The Wealth of Nations* went on to become the definitive text for champions of free trade and free markets – when Ronald Reagan was elected president of the United States in 1980 many of his supporters wore ties with the profile of Adam Smith on them.[67] But it is important to remember that Smith was largely reflecting the mood of his time, a time that rejoiced in the new-found liberties brought about by the end of monarchical rule and the potential of new technology, the new Industrial Revolution and new global markets. Smith was part of a broader eighteenth-century 'Scottish Enlightenment' school of philosophy that held that society had progressed through several important historic stages of which the eighteenth century was a crucial one.[68] Smith never lived to see the downsides of technology, however – like the greenhouse effect – or the downsides of global markets – like the Third World debt crisis. Also, Smith's views assumed perfect markets that knew nothing of monopolistic market shares held by dominant companies or lop-sided global trade deals tilted against low-income countries, so his views were very much a product of their time and don't necessarily connect with today's world.

By the end of the eighteenth century Europe had colonised extensive fertile and mineral-rich areas of the Americas and the Pacific in particular whose colonised area exceeded that of all of Western Europe. These newly colonised areas fed the raw material hunger of Europe's Industrial Revolution. The infamous British coloniser Cecil Rhodes once remarked 'we must find new lands from which we can easily obtain raw materials and at the same time exploit the cheap slave labour that is available from the natives of the colonies'.

In general terms the period up until the end of the eighteenth century saw major changes in the structure of global trade but no quantum change in the volume of global trade. The structural changes that took place during the eighteenth century were mainly to do with the linkage of pre-existing continental trade networks by the Europeans. Right until the end of the eighteenth century the influence of trade was mainly felt at the edges of economic activity because global trade remained largely confined to luxury and high-profit/low-volume goods.

World trade in the nineteenth century

After the end of the eighteenth century world trade entered a new era fundamentally different to everything before. The changes in global trade that had taken place laid the foundations for an explosion in global trade throughout the nineteenth and twentieth centuries. A global trade network had already been established but it only began to carry a significant volume of goods and services after the start of the nineteenth century.

During the nineteenth century the growth of global trade hugely outpaced the growth in worldwide production. By 1913 world output per head of population was 2.2 times what it had been in 1800 whereas the volume of per capita trade was 25 times its 1800 level.[69] In 1800 the total value of global trade was equal to only about three per cent of the value of all the world's combined gross domestic product but by 1913 it had reached 33 per cent[70] – a proportion only slightly less than its level today. Between 1800 and 1913 global trade grew by between 30 and 60 per cent per decade with the highest growth recorded between 1840 and 1870.[71] By contrast, trade volumes in the sixteenth, seventeenth and eighteenth centuries had only increased by about 1 per cent per year.[72] All of this made the nineteenth century a period of some of the fastest growth in global trade ever seen with only the second half of the twentieth century rivalling it.

One of the major drivers of the amazing nineteenth-century growth in global trade was the use of steam power in both sea and rail transport. Just as it had radically reshaped industrialisation in the eighteenth century, steam power radically reshaped trade and transport in the nineteenth century. The first commercial steamship was built in Glasgow in 1812 and operated along the Scottish coast.[73] In 1838 the *Great Western* was launched – the first steam vessel that could cross the Atlantic without refuelling. Steam power hugely increased the carrying capacity of oceangoing ships but they had relatively short ranges and needed frequent stops for coal. By the late nineteenth century Britain had a reliable global network of coal refuelling ports and its domination of steamship technology allowed it to dominate global trade.[74] A major improvement in steam technology came with the development of turbines specifically made for marine propulsion, first used in 1897.[75] Steamships could move at many times the speed of sailing ships and could travel in any weather. They could also carry much larger volumes of freight. They slashed the time it took to travel between Europe and Asia or the Americas with the result that peacetime freight rates fell by 80 per cent between 1815 and 1850 then fell by another 70 per cent between 1870 and 1900.[76]

The development of railways followed a similar trajectory. The first successful railway was developed by George Stephenson in Britain in 1825.[77] After its development there followed a massive laying of railway track and huge speculation in the new railway industry spurred along by rapid advances in metal technology including the discovery of the technique for converting iron into steel in 1856.[78] In the second half of the nineteenth century many high-income countries got caught up in a track-laying frenzy – between 1840 and 1900 the amount of track laid in the US increased 54-fold while in Britain it increased 13-fold.[79]

The upshot of the advances in steam technology was that a much greater range of goods could be profitably traded around the world and many new international business opportunities opened up. Until the nineteenth century international trade had been largely confined to luxury items; steam power made the movement of a broad range of bulk commodities possible for the first time. Instead of only low-volume/high-profit items being traded internationally, many large-volume/lower-profit items could now profitably be moved around the world.

Another major contributor to the nineteenth-century global trade boom was the invention of telegraph communication. The first successful demonstration of electrostatic communication was made in Britain by Francis Ronalds in 1816.[80] By the 1840s electric telegraph communication had become popular, aided by the invention of Morse Code by Samuel Morse in the 1830s. In 1851 Britain and the United States were linked for the first time by an undersea telegraphic cable.[81] In 1876 Alexander Graham Bell developed the first successful telephone.

The combination of the new steam, railway and telegraph technologies had a powerful effect on world trade. Author Philippe Legrain argues that 'steamships, railways and the telegraph made nineteenth century globalisation possible'.[82]

The upshot of the new technology was that global trade experienced a significant deepening. Before the nineteenth century, global trade had been mainly confined to coastal towns and cities and didn't affect inland centres very much; the new steam, railway and telegraph technologies ensured that global trade was able to touch all corners of the world.[83]

Another major development that would have huge implications for global trade was the discovery of oil in the late nineteenth century. The first major oil discovery in the world was made in the US by Edwin L. Drake at Titusville, in Pennsylvania, in 1859.[84] Eleven years later John D. Rockefeller formed the first major oil transnational corporation, the Standard Oil Company. Oil was first discovered in the Baku region of Russia in 1873, and in 1885 the Royal Dutch oil company discovered oil in the Sumatra region of Indonesia.[85] On the back of these discoveries Henry Ford built his first motor car in 1896.

Another major force that slashed the cost of global freight was the building of the Suez Canal between 1859 and 1869. Within three months of its opening the cost of shipping between London and Bombay fell by 30 per cent and the time it took to travel from Marseille to Shanghai fell from 110 days to 37 days.[86] Goods could now move around the world on a scale never dreamed of before.

Ricardo's theory of comparative advantage

The nineteenth century produced a major refinement of Adam Smith's landmark economic philosophies in the form of the economic philosophies of Englishman David Ricardo. Like Smith, Ricardo was a passionate supporter of free trade, but he took Smith's theories further by formulating a theory of *comparative advantage* which he expounded in his 1817 opus *On the Principles of Political Economy and Taxation*. The comparative advantage theory essentially held that even if a country can produce several different goods more efficiently than another country it is advantageous, for both countries, for the more efficient one to specialise in that product that it produces most efficiently (and cheaply) of all. Like Smith, Ricardo is regarded as something of a free trade pin-up boy but also like Smith he largely reflected the influences of his time. When he developed his theory Britain was suffering from high food prices, partly as a result of the Napoleonic Wars, and Ricardo argued that the country could lower this cost by specialising in manufacturing and importing all its food.[87] His comparative advantage theory was underpinned by several assumptions that don't necessarily hold today, however. One was a fundamental assumption that factors of production can not cross national boundaries and that once a country holds a competitive edge in the production of a product it will never lose it. During the nineteenth century this assumption was valid because even though goods had become more mobile global capital had not. Today, of course, capital can move very freely around the world and factors of production can easily move between countries. Comparative advantage has been replaced by *competitive advantage* and as a result Ricardo's theory is no longer particularly valid.

As the Industrial Revolution developed, Europe became more and more entrenched as the centre of global trade. By 1876–1880 Europe accounted for a massive 64 per cent of all the world's exports and 70 per cent of all the world's imports.[88] Within Europe Britain reigned as the dominant trading nation throughout much of the nineteenth century, accounting for nearly half of all the world's imports in the 1850s.[89] The European domination of global trade continued right up until the start of the First World War: Europe still accounted for 59 per cent of all the world's exports and 65 per cent of all the world's imports in 1913.[90] During the nineteenth century Germany, France and the United States all unsuccessfully attempted to challenge Britain's trade dominance. Despite the lack of success of their power plays Britain's domination started to wane with its share of manufactured exports, for instance, falling from 88 per cent of the global total between 1876 and 1880 to 70 per cent by 1913.[91]

One of the most disgraceful chapters in the story of Britain's global trade domination took place between 1839 and 1860 when it waged its Opium Wars with China. Britain had long been frustrated by the restricted access both it and most other European countries had to the Chinese market and also by the trade deficits it routinely ran up with the Chinese. Its answer to both was to introduce Indian-grown opium to China. As Chinese addiction to the drug spread, the Chinese moved to ban it which sparked the wars. The British ended up humiliating the Chinese and as part of its winnings ended up getting access to several Chinese coastal cities as well as taking control of Hong Kong.

During the nineteenth century there were major changes in the make-up of world trade. Raw materials accounted for just under two-thirds of world trade throughout the nineteenth century[92] but towards the end of the century agricultural produce and foodstuffs in general declined in importance while minerals increased their share.[93] The value of the global trade in manufactured goods almost trebled between 1876–80 and 1913.[94] Increasingly throughout the century the emphasis of manufactured trade shifted from textiles towards goods made from metal and other products including chemicals, paper, wood products, clay and glass.[95]

World trade in the twentieth century

Global trade seemed unstoppable during the nineteenth century and the early part of the twentieth century. But after the First World War it hit a wall. After growing by between 30 and 60 per cent per decade during the nineteenth century it grew by only 14 per cent per decade during the period from 1913 to 1937.[96] This rate of growth was much slower than the growth of world output at the time. Global trade was hard hit by the First World War but revived fairly rapidly during the 1920s even though Europe emerged from the war in a vulnerable state with major reconstruction and inflationary pressures upon it. Throughout the 1920s there was a delicate balance of global financial flows between the world's major countries. Europe consistently ran a trade deficit with the United States, whose economy came out of the war relatively unscathed, and the deficits were mainly financed through large flows of US capital that came back to Europe in the form of loans and foreign investment. The delicate financial flows were largely the result of inter-government borrowings used to finance the First World War. Before the war there was little debt between European governments, but during it they borrowed heavily from each other and from the United States in particular. Subsequently they relied on German post-war reparations to finance the debts.[97] This delicate balance came asunder, however, in October 1929 when Wall Street crashed and US investors began calling in their money from overseas. The Wall Street crash kicked off the Great Depression which had a major dampening effect on global trade.

Not only was the pace of global trade expansion significantly affected by the First World War and the interwar years, so too was the ranking of the world's dominant trade powers. The first half of the twentieth century ended European dominance of global trade. In 1913 Europe was responsible for almost two-thirds of global trade but by 1937 it was responsible for just over half.[98] A lot of its trade share went to the US and Japan: North America accounted for just over 13 per cent of global trade in 1913 compared to just under 16 per cent in 1937, while Asia increased its global trade share from about 11 per cent in 1913 to just under 16 per cent in 1937.[99]

One of the most significant areas in which Europe lost its hegemony was the trade in manufactured goods: its global share fell from four-fifths in 1913 to two-thirds in 1937.[100] Britain lost much of its share of manufactured goods trade before the First World War; after the war the rest of Europe also lost out to other producers around the world. The United States emerged from the First World War as a major new player in the trade of manufactured goods, increasing its share of global manufactures trade from 13 per cent in 1913 to 20 per cent in 1937.[101] Within the trade of manufactured products, engineered and metal goods continued to account for a increasingly large share – nearly half by 1937 – while the trade in textiles continued to slide, going from just under 30 per cent in 1913 to just under 20 per cent in 1937.[102]

Raw materials continued to account for about two-thirds of all global goods trade between 1913 and 1937 but food and agriculture continued to lose importance while minerals continued to gain importance. One of the fastest-growing areas of raw material exports was oil. In 1913 virtually no oil was traded around the world but by 1920 US$1,170 million worth was being traded.[103] Europe was the main importer of oil, and the United States, Dutch Indonesia and Venezuela were the main exporters.

The discovery of oil was a crucial development for global trade. The first drive-in petrol station had been opened in St Louis in the United States in 1907.[104] Oil grew in importance with the development of the 'cracking' process of oil refinement in 1913 as well as the acquisition by Western nations of the first oil concessions in the Middle East in Persia (Iran) in 1901 followed by a major discovery there in 1908 and the granting of an oil concession to Standard Oil of California in 1933.[105] Oil today is vital to world trade, it is the heart that keeps the global trade organ alive.

Other early-twentieth-century developments that would revolutionise global trade were the first flight by the Wright Brothers in 1903, the opening of the Panama Canal in 1914, the development of the diesel engine, the spread of the motor car and the spread of the telephone. The Wright Brothers' flight led to the start of aeroplane passenger travel in Germany before the First World War although it wasn't until the 1960s that declining air travel costs began to make air travel commonplace.[106] The Panama Canal cut about 8,000 nautical miles from the voyage from the east coast to the west coast of the United States. The diesel compression engine (named after one of its major inventors) was more than twice as efficient as the spark engine at converting fuel to effort.[107] It was first developed in 1892 and first fitted to a truck in 1924 – it reduced the fuel costs of trucks to less than half the comparable cost of a spark ignition engine.[108] Diesel engines were also eventually fitted to ships and in the 1920s radically lowered their costs as well.[109] German engineer Gottlieb Daimler had been responsible for developing the petrol-driven engine. In 1886 he attached a four-stroke engine to a bicycle, using an engine concept pioneered by fellow German Nikolaus Otto.[110] Ten years later Henry Ford produced his first car. The famous model T Ford followed in 1908.[111] Ford's early commercialisation of the motor car meant car travel was embraced much earlier in North America than in Europe. In 1912 the invention of the vacuum tube by Lee De Forest allowed the then infant telephone technology to carry calls over long distances (through amplification) which in 1956 led to the laying of the first trans-Atlantic telephone cable – between Scotland and Newfoundland.[112]

The world's economies were hit harder by the Second World War than they had been by the First – and it therefore had a more profound effect on global trade – but the world was generally able to recover from the Second World War more rapidly. Once most of the post-Second World War reconstruction was over, two decades of rapid economic growth began in nearly all the world's economies. High-income economies recorded an average annual growth rate of 4.9 per cent between 1950 and 1970, a rate that towered above the 2.6 per cent averaged between 1870 and 1913 and the 1.9 per cent averaged between 1913 and 1950.[113] This high growth rate resulted in a massive growth of global trade, which between 1948 and 1960 grew on average by just over 6 per cent per year; between 1960 and 1973 it grew by 8 per cent per year.[114] By 1973 trade was five and a half times its 1948 level. But by then the United States and Britain had lost much of their post-war trade dominance (they had accounted for more than half of all high-income country exports in 1950) while Western Europe and Japan had gained greater global trade shares.[115] Japan experienced particularly rapid export growth and nearly quadrupled its share of world exports between 1950 and 1973.[116] In the post-war years manufactured exports gained a much greater share of global exports, rising from 43 per cent in 1950 to 62 per cent in 1973, while food and raw materials declined in trade share falling from 57 per cent in 1950 to 38 per cent in 1973.[117]

The shocks of the seventies and early eighties

In amongst all the economic sunshine of the 1950s and 1960s was a cluster of interrelated dark clouds that remained relatively unnoticed until it was too late. A system of post-war global economic governance – which included the establishment of the International Monetary Fund and the World Bank and a new system of fixed exchange rates – developed at a major world economic conference held at Bretton Woods, in the United States, in 1944 (see Chapter 2) worked well throughout the fifties and sixties but it ultimately sowed the seeds of its own destruction.

One of the destructive seeds was the post-war trade dominance of the United States. As previously discussed, the US finished the Second World War with a giant share of global trade accompanied by large trade surpluses, both of which drove the US's determined post-war support for free trade. But US dominance did not last; the economies of Western Europe and Japan got on their feet again and came to compete more ferociously with the exports of the US. In 1958 the US recorded its first-ever trade deficit since the nineteenth century.[118] By the 1960s its occasional trade deficits were becoming more common and by the 1970s they had become a permanent feature of the US economy. Between 1967 and 1971 the US trade deficit increased from US$2.9 billion to US$19.8 billion.[119] These trade deficits were not helped by the massive debt-financed spending by the US on the Vietnam War which fuelled inflation and ratcheted up US export prices thereby making the country's trade less globally competitive. Nor were US trade deficits helped by the nation's huge oil thirst. Until the 1950s the US had been the world's largest producer of oil and one of its largest oil exporters which helped boost its trade surpluses. But in the 1950s US oil demand began outpacing its production and it started importing oil for the first time (today it imports about half its oil and by 2020 is likely to be importing about two-thirds).

A second seed of destruction lay in the increasing export prices that raw materials (agricultural produce and minerals, mainly) began to command in the 1960s. The unprecedented economic growth of the 1950s and 1960s created a massive demand for raw materials, whose global supply by the end of the 1960s was beginning to fall behind global demand. The net result was a sharp rise in the price of traded raw materials at the start of the 1970s. This did not help the trade balances of high-income countries such as the United States but it did help the trade balances of several low-income countries many of which relied on raw materials for most of their export income. Before the 1970s low-income countries had borrowed very little money from the rest of the world but once their raw material export prices began to climb they started looking like increasingly attractive clients to high-income-country banks which began to court them. The courtship was ultimately consummated with the foreign debts of poor countries more than quadrupling between 1970 and 1980.[120] The consummation was helped by the huge amounts of money that poured into Western banks from Middle Eastern oil producers benefiting from oil price increases throughout the 1970s. High-income-country banks like Citicorp and Bankers Trust came to make up to 80 per cent of their profits from Third World loans.[121] But like the post-war trade luck of the United States, the trade luck of low-income countries was not to last. By the end of the 1970s raw material export prices were beginning to fall and at the same time Paul Volcker, Chairman of the Federal Reserve Bank of the United States, pushed up interest rates – and therefore the debt repayments of poor countries – in an effort to 'blitz' the inflation of the 1970s. These two forces delivered a double whammy to poor countries but their ongoing need to keep financing their foreign debts meant they could not withdraw from the global economy as they had after the Second World War.

Oil experienced sharply increasing prices during the 1970s. During the 1950s and 1960s the world had become increasingly dependent on oil. In Western Europe, for instance, oil only supplied 23 per cent of its energy needs in 1955 but by 1972 it was supplying 60 per cent.[122] The assertiveness of its suppliers was also increasing. In 1960 the world's major oil exporters formed a supply association – the Organisation of Petroleum Exporting Countries (OPEC). In 1970 the Libyan government started pressuring oil companies operating in its country to give it a greater share of both oil revenues and the infrastructure used to extract it (following the rise to power of Muammar al-Qaddafi) a move that was copied by other Middle Eastern countries.[123] The new muscle of oil producers was flexed in a big way in 1973 following the start of the Yom Kippur war between Israel and Egypt/Syria. Oil prices rose in 1973 from US$2.90 per barrel in September to US$11.65 per barrel in December[124] – a move that increased the trade vulnerability of the US and most high-income countries that imported significant volumes of oil. The oil price rises generated a lot of extra revenue for Middle Eastern countries which they invested in a new, lightly regulated, London-based Eurodollar capital market which in turn financed the rapidly increasing lending to low-income countries.

These seeds of destruction coalesced and erupted in the early 1970s and early 1980s and in so doing completely changed the face of the world economy in general and world trade in particular.

As the trade deficits of the United States increased throughout the 1960s, more and more dollars poured out of its economy putting mounting strain on its gold reserves. It became increasingly obvious that its currency was overvalued, so in August 1971 President Richard Nixon unilaterally floated the US dollar and delinked it from the gold standard established at the 1944 Bretton Woods conference. This was a desperate act undertaken with no consultation whatsoever with other major global economies and was a telling indicator of the growing economic insecurity felt by the United States (which continues to this day). It ushered in a new era of floating exchange rates and massive speculation on the world's currency markets (aided by the convertibility of the world's major currencies from the 1950s). It also finally ended the Bretton Woods system which linked all the world's currencies to the US dollar (via fixed exchange rates). It heralded the end of certainty in the world economy and the start of a new era of speculative insecurity. Between 1979 and 1981 there was a second major hike in oil prices – this time coinciding with the fall of the Shah of Iran – which saw prices climb from US$13 to US$34 per barrel.[125] Then in 1982 there was a second major eruption of world economic forces with the start of the Third World debt crisis following default on foreign loans that year by Mexico and Argentina (after its defeat in the Falklands war). Amongst other things the debt crisis radically changed the role of the International Monetary Fund, which went from being a short-term currency crisis lender to a long-term free-market interventionist manager of low-income debtor economies. But more than anything else the de-linking of the dollar and the start of the Third World debt crisis meant, in the long term, that there was much less predictability in the world economy and that low-income countries were necessarily woven into it in a way they had never been before. In the short term these forces were also responsible for a major slowdown in world economic growth throughout the 1970s with a resultant slowdown in the growth of world trade (both fell to half their pre-1970s average).

Throughout the 1980s the growth of global trade remained fairly subdued: it grew by an average of 4 per cent each year between 1980 and 1988 and 4.5 per cent each year between 1973 and 1979; both rates were well down on the eight per cent average annual growth recorded between 1960 and 1973.[126] Another continuing trend during the 1980s was the domination of global trade by high-income countries. In 1980 they controlled 62 per cent of global goods trade and in 1990 they controlled 71 per cent.[127]

A major innovation that ended up radically altering global trade was the development of containerisation on ships. Containerisation was the brainchild of one Malcom McLean who in 1955 hit on the idea of lifting the body of a lorry – after it was unhitched from the driver's cab – on to a ship instead of individually loading its various cargo items.[128] This cut out freight handlers and soon gave way to the use of metal boxes (containers) instead of lorry chassis. In 1965 a standard container design was adopted right around the world.[129] By the 1970s ships solely dedicated to container carriage were dominating world sea freight (which carries about 80 per cent of all the world's trade). The result was that shipping costs fell radically and the amount of sea freight rose steeply. The development of shipping containers ended up having an even greater effect on lowering shipping costs than the development of the diesel engine had.[130] Between 1980 and 1996 the world's container fleet rose from slightly over 500,000 to more than 3 million vessels.[131] During the second half of the twentieth century not only did ships become more numerous, they also became a lot larger (in part as a result of the nationalisation of the Suez Canal by the Egyptian government in 1956 and its closure in 1967 – it reopened in 1975).

A by-product of the fall in shipping costs was the emergence of the global product – which has different parts produced and marketed from a number of countries around the world. One study found that a particular brand of car sold in America, for instance, was produced in nine different countries. Only 37 per cent of the car's production value was accounted for by work performed in the United States; assembly in South Korea accounted for another 30 per cent; 17.5 per cent was components and advanced technology made in Japan; 7.5 per cent was design in Germany; 4 per cent was minor parts made in Taiwan and Singapore; 2.5 per cent was advertising and marketing done in Britain and 1.5 per cent was data processing performed in Ireland and Barbados.[132]

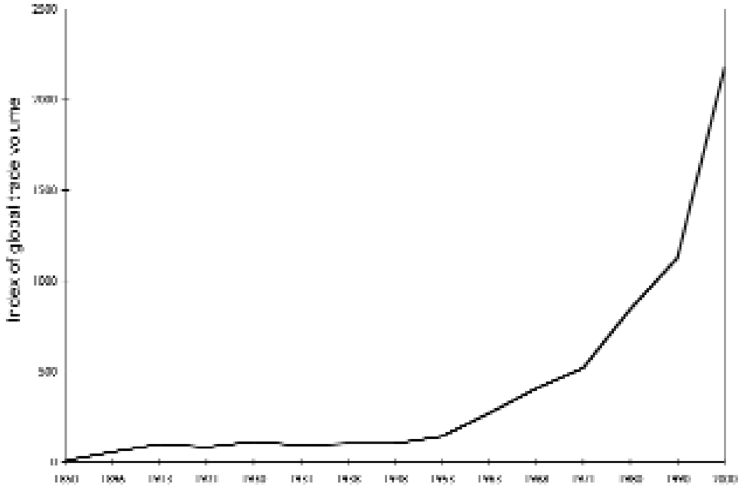

Figure 1.1 Volume of world trade since 1850

Sources: W.W. Rostow, *The World Economy: History and Prospect,* Austin, Texas, 1978, p. 669; C. L. Hottfrerich, *Interactions in the World Economy*, New York, Harvester Wheatsheaf, 1989, p. 2; World Trade Organisation, *Annual Report 2001*, Chart II.i; and Graham Dunkley, *Free Trade: Myth, Reality and Alternatives*, London, Zed Books, 2004, p. 91.

Another trade-impacting innovation that took place during the second half of the twentieth century was the development of jet aeroplanes. Aeroplanes did not progress beyond propeller-based technology until the Second World War when both the United States and Germany developed jet engine technology. During the decade after the war, global airline networks were developed for the first time although not until 1957 could an aeroplane fly non-stop from London to New York.[133] By the time Boeing 707s were crossing the Atlantic in 1958 they were taking only half the time that propeller-driven aeroplanes had taken.[134]

Changing global trade players

Just as the first half of the twentieth century had seen major changes in the makeup of the world's major trading nations the latter part of the century saw yet more major changes. The really big change of the 1980s was the rise of the four East Asian 'tiger' economies of South Korea, Taiwan, Hong Kong and Singapore as major trading nations. Throughout the 1950s and 1960s three of those four economies (excepting Hong Kong) had followed strong import substitution policies but in the 1980s, in particular, they radically changed course and became highly competitive exporting nations. Their competitiveness was often buttressed by large government subsidies. The net result was that they became major global trading nations by the early 1990s: their share of global trade had risen from 2 per cent in 1960 to 9.3 per cent in 1993.[135] In the 1990s Thailand and Malaysia also became increasingly established as major trading nations and by the end of the 1990s China had started to become a very significant global trader. Between 1986 and 2000 the value of China's exports increased eightfold while the total of world exports rose 3.4-fold over the same period.[136]

By the start of the twenty-first century, world trade had reached enormous levels. The value of world exports and imports now equals more than US$13 trillion – equal to 42 per cent of the world's combined gross domestic product.[137] This is an unprecedented level of world trade. By 2000 world trade was twenty times larger than it had been in 1950 while the world's overall production of goods and services was only six times larger.[138] All these growth statistics mask some major imbalances, however. High-income countries still dominate world trade as they did throughout all of the twentieth century. In 2002 developed countries accounted for 63 per cent of the world's exports while developing countries only accounted for 32 per cent.[139] There is also a major imbalance in the make-up of world trade. In recent years manufactured goods have accounted for 61 per cent of world trade but manufactured goods only account for about 20 per cent of the world's total output of goods and services; they therefore

Table 1.1 Timeline of the history of global trade

Prehistoric times	Limited trade between Africa, Europe and Asia
3rd century CE	Silk Road trade route linking Europe with Asia is established (ends in 17th century)
5th century	Limited Roman empire global trade ends with collapse of empire
7th century	Spread of Islam expands continental trade across Asia
10th century	China begins global trading (which finishes in 15th century)
15th century	Euro-Asian trade increasingly goes by sea, making ports like Venice important
1492	Christopher Columbus reaches West Indies
1498	Vasco da Gama reaches east coast of Africa
16th century	Portugal wages war on Muslim traders in Asia; Spain dominates trade with South America, Portugal dominates trade with Africa and Asia; large shipments of slaves leave Africa for American sugar plantations; South American gold monetarises global trade for the first time
17th century	Holland and Britain become the dominant global trade powers; cotton, tea and coffee come to dominate European trade with Asia, while tobacco and sugar come to dominate European trade with America
1602	The Dutch East India company is formed
18th century	Europe colonises vast new lands in the Americas and Pacific
1760s	New cotton spinning technology revolutionises textile production marking the start of the Industrial Revolution
1774	Full production starts of James Watt's new steam engine
1776	Adam Smith publishes *An Inquiry Into the Nature and Causes of the Wealth of Nations*
19th century	Volume of global trade grows at least twentyfold during the century
1812	First commercial steamship is launched
1816	First successful demonstration is made of electrostatic communication which paved the way for telegraph and telephone communication

1817	David Ricardo publishes *On the Principles of Political Economy and Taxation*
1825	First railway begins operation (in Britain)
1839–1860	Opium trade wars between Britain and China
1850s	Britain accounts for half of all global trade
1859	First ever discovery of oil (in Pennsylvania, in the USA)
1869	Suez Canal is opened
1886	Petrol engine is invented
1892	Diesel compression engine is invented
1896	Henry Ford sells the first commercial motor vehicle
1903	First successful aeroplane flight (by the Wright brothers)
1913	Oil 'cracking' process is invented
1914	Panama Canal is opened
1929	Wall Street crash leads begins Great Depression, causing major slowdown of global trade
1950s to 1970s	High world growth rates lead to large increases in global trade
1957	Jet aeroplanes begin flying non-stop between London and New York
1958	The USA records its first trade deficit in the 20th century
1965	Design of shipping containers becomes standardised around the world
1971	US dollar is de-linked from the gold standard
1973 and 1979	First and second world oil price rises result in a slowdown of global trade
1982	Start of Third World debt crisis
2000	Value of global trade reaches US$13 trillion – equal to a record 42 per cent of world gross domestic product

Sources: James D. Tracey (ed.), *The Political Economy of Merchant Empires: State Power and World Trade 1350–1750*, Cambridge University Press, New York, 1991, James D. Tracey (ed.), *The Rise of Merchant Empires: Long-distance trade in the early Modern World 1350–1750*, Cambridge University Press, New York, 1991, Peter J. Hugill, *World Trade since 1431: Geography, Technology and Capitalism*, The Johns Hopkins University Press, Baltimore, 1995 and The Reader's Digest Association, *The Last Two Million Years*, Reader's Digest Services, Sydney, 1986.

account for a disproportionate share of all the world's trade. The reverse is true of services – they account for about 20 per cent of world trade even though their share of the world's total output of goods and services is about 60 per cent.[140] Basically at the start of the twenty-first century the world has an enormous global trade market that has grown to massive proportions but its growth has been unstructured and has major flaws. Today world trade has quantity without necessarily having quality.

Notes

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13 Tracey, *The Rise of Merchant Empires*, p. 352.
14 Ibid., pp. 351, 365.
15 Ibid., p. 17.
16 Ibid., p. 20.
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18 Ibid., p. 110.
19 Tracey, *The Political Economy of Merchant Empires*, p. 436.

20 Tracey, *The Rise of Merchant Empires*, pp. 37,38.
21 Ibid., p. 402.
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31 Ibid., p. 58.
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33 Tracey, *The Political Economy of Merchant Empires*, p. 25.
34 Ibid., p. 149.
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37 Tracey, *The Rise of Merchant Empires*, p. 37.
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2
Global trade negotiations

There is little subtlety about the politics of global trade. It is often brutal and frequently reflects broader power dynamics that run through international relations in general. The global trade negotiations held since the Second World War have largely reinforced rather than diluted global power relationships and an understanding of them is essential for an understanding of the future of global trade.

Trade negotiations since the Second World War

Every decade since the end of the Second World War has seen at least one major set of international talks aimed at writing new global trade rules. This level of international trade negotiation is very much a phenomenon of the post-Second World War years. Before the Second World War there were isolated global trade meetings – such as a World Economic Conference held by the League of Nations in 1927 – but they were few and far between.

The Bretton Woods Agreement and the International Trade Organisation

The global trade talks held after the Second World War had their origins in the war itself. As the US/British-led allies became more confident of victory in the war the US and Britain became increasingly concerned about the creation of a stable post-war economic environment that would avoid the excesses of the interwar period (which had, in part, caused the war). Their dialogue on the issue dated from their signing of the Mutual Aid Agreement in 1941 which (although mainly concerned with lend-lease arrangements) committed both countries to post-war economic cooperation.[1] The United States was particularly focused on the potential of trade to create a stable post-war world economy and throughout the war it secured commitments from its allies to a freeing-up of international trade after the war finished.[2]

The foundations of the post-war economic order were laid even before the Second World War had finished, at a conference held in Bretton Woods, New Hampshire (United States), in July 1944 that was attended by 730 delegates from 44 countries (there were only about 55 countries in the world at the time). Although sometimes presented as an exercise in economic democracy, in reality the conference was run by the United States which didn't meaningfully negotiate with anyone apart from the British. According to authors Fatoumata Jawara and Aileen Kwa one of the key organisers for the United States, Harry Dexter White, 'was determined to maintain control of the outcome while at the same time creating the illusion that there was genuine participation in the process'.[3] The British and Americans both agreed on the need for general liberalisation after the war – both of trade and of capital mobility – but there was much detail they disagreed on. One of the thornier issues was whether countries that ran up trade surpluses should be treated any differently to countries that ran up trade deficits. The leader of the British delegation – the renowned economist John Maynard Keynes – was solidly of the view that they should be treated equally. Keynes argued that countries that ran up trade surpluses should have similar penalties applied to them as countries that ran up deficits (see Chapter 8).[4] Keynes had been partly inspired by a pre-war bilateral barter trade scheme devised by German economics minister, Hjalmar Schacht, which ensured countries stayed in trade balance with each other.[5] The United States, however, would have none of it. They were anticipating major trade surpluses after the war and the idea of trade surplus penalties was abhorrent to them. Dexter White, in particular, had no time for them saying 'we have been perfectly adamant on that point. We have taken the position of no, on that.'[6]

Despite this disagreement on trade surplus penalties the United States was still able to secure agreement to a global foreign exchange system where all the world's currencies would be pegged at a relatively fixed exchange rate to the US dollar which in turn would be convertible into gold. The fixed exchange rate/dollar–gold convertibility system depended on a long-term equilibrium of global balance-of-payments, but the Americans had refused to agree to the mechanism suggested by Keynes that would have delivered such equilibrium so the foundation the Bretton Woods fixed exchange rate house was built on was made of sand. Despite this, however, it remained in place for the next twenty-seven years and did an admirable job of delivering predictability and security before it spectacularly fell apart in the early 1970s.

Despite their lack of agreement on treating surplus and deficit countries equally the British and Americans generally agreed on the desirability of relatively free trade after the war. The US Secretary of State, Cordell Hull, was a particularly strong believer in free trade. Many people, both inside and outside the US, felt that the trade wars of the 1930s had been a major contributor to the Great Depression. There was also agreement on the need for an international body to administer trade after the war, but such a body would necessarily require broader agreement than the Bretton Woods conference could deliver. As part of the preparation for creating such a body a 'preparatory committee' meeting was held in London in 1946; a 'drafting committee' meeting was held at Lake Success in New York in 1947; then a penultimate conference was held in Geneva later in 1947 before a final conference to establish the body was held in Havana between November 1947 and March 1948.[7] The starting point for discussion at these talks was a 1945 US plan for a multilateral convention that would regulate and reduce restrictions on international trade.[8] It proposed rules for many aspects of global trade including tariffs, trade preferences, quantitative restrictions, subsidies and raw material price agreements, and also provided for the establishment of an International Trade Organisation (ITO) that would be the trade 'sister' of the International Monetary Fund and the World Bank (both created at the Bretton Woods conference).[9]

At the Havana conference itself the United States pushed for a system of global free trade based on the Reciprocal Trade Agreements Act deals it had negotiated with selected countries before the Second World War. But the US ran into resistance from low-income countries, particularly South American ones, that wanted trade concessions to aid their development, and from the Europeans, who wanted to continue their pre-war preferential trading agreements.[10] The final conference document, the Havana Charter, was very different to what had originally been envisaged by the United States and was a complex compromise that attempted to satisfy everyone but in the end satisfied no one, least of all the United States. The Americans had particular difficulty with the threat that the International Trade Organisation might pose to their national autonomy fearing it might be able to overrule decisions made by the US Congress. US congressman Robert Loree, chairman of the National Foreign Trade Council, said 'acceptance by the United States of a charter which could be amended without its assent, or over its dissent, would be a most unusual proceeding, involving a sacrifice of sovereignty unprecedented in the history of this country'.[11] After three years of delays, in 1950 US President Truman finally decided to scuttle the Havana Charter and its International Trade Organisation rather than submit the enabling legislation to Congress where it faced certain defeat.[12]

The General Agreement on Tariffs and Trade

Even though the International Trade Organisation did not survive, a supporting agreement developed by the Havana conference – the General Agreement on Tariffs and Trade (GATT) – did. The GATT contained general prohibitions on trade-restricting measures and also had a non-binding mechanism for resolving trade disputes, but its general trade policy coverage was not as comprehensive as the Havana Charter. Unlike the Havana Charter, the GATT did not include provisions covering economic development, raw material price support, restrictive business practices or the trade in services.[13] Like the International Trade Organisation, however, the GATT was framed around a philosophical foundation that said that global trade should be as free as possible and that restricted trade during the 1930s had contributed to the Great Depression.

Although intended as a temporary arrangement, and despite initially including only twenty-three members, over time the GATT became entrenched with its own Geneva-based secretariat. Increasingly the United States saw the GATT as a useful conduit for its post-war agenda of liberalised trade. Immediately after the Second World War a full one-third of all the exports that left the shores of the major high-income countries of the time came from the United States[14] so the US saw its economic future inexorably bound to trade; it also saw trade as a bulwark against communism. It used its large amounts of post-war Marshall Plan aid as a lever for trade liberalisation, particularly in Europe.[15] Through the Marshall Plan and the GATT the US tried to multilateralise the approach it had used in its pre-war bilateral Reciprocal Trade Agreements Act[16] (interestingly, the US is currently swinging back towards bilateral trade deals). As a result the GATT started conducting 'rounds' of international trade negotiations, the first of which was held in Geneva in 1947. Both the Geneva Round and the subsequent eight rounds were strongly promoted by the US.[17] Between the end of the war and the 1970s six trade rounds were held. Although twelve of the original twenty-three signatories of the GATT agreement were low-income countries the GATT was generally viewed with suspicion by low-income countries and was thought to be dominated by high-income countries, particularly the United States and the (then) European Economic Community. The GATT was also often viewed as something of an anti-communist, Cold War institution. As a result the early trade negotiations conducted by

GATT were largely ignored by low-income countries. Most of the early GATT rounds were also relatively short, generally lasting less than two years. The two trade rounds held in the 1960s and 1970s (the sixth and seventh GATT rounds) were longer and much broader, however, and had more than three times the number of participating countries (to some extent because of the increased number of countries in the world, particularly since the 1960s). Aside from the low-income countries' suspicion, in its early years the GATT was relatively uncontroversial, partly because its agreements covered a fairly narrow range of trade issues and partly because adherence to its rulings was effectively voluntary.

The Kennedy Round

The Kennedy Round was the sixth GATT round of trade talks and was much more protracted than earlier rounds – as all subsequent rounds were to be – lasting five years between 1962 and 1967. The Kennedy Round was the most significant of all the rounds held before the 1970s and amongst other things produced agreement to large cuts in tariffs applied to non-agricultural traded products[18] and replaced product-by-product tariff cuts with across-the-board cuts.[19] The Kennedy Round also considered the issue of agricultural tariffs but was unable to reach agreement (an ominous sign of things to come).

While high-income countries were freeing trade through GATT rounds, low-income countries were pursuing a very different strategy. At the 1944 Bretton Woods conference low-income countries asked that development of their economies be given equal status to the reconstruction of Europe. At the Havana conference they also asked for special protection from the forces of free trade through mechanisms such as tariff/quota protection of their 'infant industries' and price support funds for their raw material exports.[20] They were rebuffed at Bretton Woods, and when the US scuttled the International Trade Organisation they ended up being rebuffed at Havana as well. The result was that during the 1950s and 1960s low-income countries abandoned their attempts to influence the global economic agenda and instead turned inwards. South American countries in particular focused on building up local industries behind high tariff barriers and disengaged from the global trade market to a large degree.

The Tokyo Round

In the wake of the first oil price shock, and the delinking of the US dollar, a seventh round of GATT trade negotiations was launched – the Tokyo Round – which began in 1973. Although conducted during more pessimistic times than earlier trade rounds the goals of the Tokyo Round were more ambitious and it included more countries. The round sought further significant decreases in tariffs and quotas as well as tighter regulation of non-tariff barriers to trade.[21] Sixty-two countries had taken part in the Kennedy Round while ninety-nine took part in the Tokyo Round.[22] The Tokyo Round took six and a half years to complete and was largely successful in further reducing tariffs and quotas as well as in increasing the regulation of non-tariff trade barriers. In the crucial area of agricultural trade barrier reduction it was unsuccessful, however. Even though the United States claimed to support liberalisation of agricultural trade, the European Community and Japan did not and liberalisation efforts during the round failed.[23]

Both the Tokyo and Kennedy Rounds included low-income countries in a significant way for the first time although the concessions they were able to negotiate were modest. Starting in the 1950s the low-income country attitude of disengagement from global trade talks relaxed as they became more interested in global trade. As an inducement to participation, the Tokyo Round introduced the concept of longer trade agreement implementation periods for low-income countries. Although a number of low-income countries took part in the Tokyo Round negotiations a large number were not convinced of the worth of the round's final declaration and refused to sign it, thereby keeping themselves out of the GATT system.

The Uruguay Round

Between 1986 and 1993 an eighth round of global trade negotiations was conducted. It was launched at a GATT meeting held in Punta del Este, Uruguay, in September 1986.[24] In the late 1970s and early 1980s the two oil price shocks as well as the apparent success of highly interventionist trade policies – such as those pursued by the Japanese Ministry of Trade and Industry – had created a lot of disillusionment, or at best ambivalence, about free trade,[25] and there was reluctance to start a new round of negotiations. But the new Reagan government in the United States stimulated enthusiasm for the talks.

The Uruguay Round was fundamentally different to the previous seven rounds. Many more countries took place and for the first time low-income countries took a keen interest in the negotiations. In all, 125 countries took part, of which 91 were low-income countries.[26] Only 17 low-income countries had joined the GATT between 1967 and 1987 but between 1987 and 1994 alone another 29 joined the organisation.[27] By the 1980s low-income countries had become quite engaged with global trade as a result of a series of forces that included: a fall in their economic growth rates, the new trade success of several East Asian economies (which started in the 1980s), the need to service their foreign debts, the collapse in raw material prices, and pressure from the IMF and World Bank. The large increase in low-income country participation resulted in negotiations in areas of special concern to them including agriculture and clothing/textile trade.[28] This was seen as a major gain for these countries. High-income countries had special trade issues they wanted considered as well. They successfully lobbied for the introduction of three new major issues into the trade talks: services trade, global intellectual property rights and global trade-related investment. By the 1980s the trade in services had become the most rapidly growing sector of global trade, and high-income countries – who were generally well placed to export an increasing volume of services – wanted it freed up. Major pharmaceutical and finance transnational corporations lobbied the Reagan administration to have intellectual property rights included in the round because they were concerned about their perceived loss of overseas sales in countries that had loose patent laws. Low-income countries were reluctant to have these new issues introduced, however, and only agreed on condition that they were kept separate from the core negotiations on the trade in goods (which they weren't in the end).

Another new area taken on by the round was the tightening of global trade administration and more inflexible enforcement of global trade rulings. In contrast to the voluntary adherence regime of the GATT the Uruguay Round introduced a new compulsory adherence regime to trade disputes rulings to be heard by a new global trade authority, the World Trade Organisation, which replaced the GATT secretariat.

Although originally scheduled to finish by 1990 the Uruguay Round dragged on for another three years and nearly collapsed near its end. The issue of agricultural trade went close to derailing the negotiations. The United States, most low-income countries and the Cairns Group of agricultural free market countries wanted radical reductions in agricultural subsidisation and protectionism but the European Union (EU) and Japan were opposed and frequently held up negotiations over the issue. The EU (France in particular) persistently watered down compromises over farm subsidisation until the final agreement was fairly insignificant. Just as a new US president had been instrumental in starting the round another new US president – Bill Clinton – was instrumental in pushing through final agreement following his perceived success in getting agreement on the establishment of the North American Free Trade Agreement between Canada, the United States and Mexico.[29] The final Uruguay Round agreement was signed on 15 April 1994, in Marrakesh, Morocco. Within its text were several agreements that would have a huge impact on the future of trade. The most significant was agreement to establish the new World Trade Organisation (WTO) from 1995. The agreement also cut tariffs on manufactured products by up to one-third and gradually phased out restrictions on international clothing and textile trade over a ten-year period finishing in 2005. It also included a number of controversial 'side deals'. Some of the most controversial of these were: the Trade

Related Aspects of Intellectual Property Rights (TRIPS) agreement that tightened international patent law, the Trade Related Investment Measures (TRIMS) agreement that prohibited various forms of restriction on foreign investment connected with trade, and the General Agreement on Trade in Services (GATS) aimed at the liberalisation of the trade in services.

The Doha Round

For a short time after the completion of the Uruguay Round it seemed as though free trade harmony had broken out all over the world. This illusion was shattered in 1996 when the first post-Uruguay Round meeting of WTO trade ministers was held in Singapore. Low-income countries had finished the Uruguay Round concerned about the implementation of issues decided during the round, particularly the promised relaxation of high-income country agricultural protectionism and subsidisation. But at Singapore high-income countries made it clear their main priority was not implementation of the Uruguay Round but to push trade negotiations into new areas. At the meeting they identified four new issues they wanted included in the new round that became known as 'the Singapore issues'. They were: investment, competition, government procurement and trade facilitation. Low-income countries were generally loath to take on the new issues and the meeting only agreed to establish working groups on the issues. But at the meeting a fundamental question was posed that would dominate trade talks for the next ten years: should trade talks keep reaching into new areas or should they concentrate on consolidation in existing areas? This issue is a defining point of difference between high- and low-income countries.

The Singapore meeting laid the groundwork for the attempted launch of a new 'Millennium Round' of trade talks at a WTO meeting held in Seattle in November/December 1999. But the new Seattle talks hit a brick wall both internally and externally. Externally 50,000 people took to the streets of Seattle in an unprecedented show of public protest against the talks. Massive crowds met front-line high-tech soldiers and clouds of tear gas. Internally the debilitating factors included: major disagreements about the priorities of the trade talks, poor conference organisation, strong cohesion amongst low-income countries (who had come to the meeting better prepared than they had been for previous meetings), a lack of mediation by the United States host, and serious and unresolved disagreements between high-income countries.[30]

The collapse of the Seattle talks was only viewed as a temporary setback by the WTO which put enormous energy, under its new director Michael Moore, into a fresh attempt at launching a new round (this time called a 'Development Round') at Doha, Qatar, in November 2001. The Seattle failure put a lot of pressure on the Doha meeting, and added pressure came from the terrorist attacks on the World Trade Center and the Pentagon in the United States two months earlier as well as from the fear of an imminent global recession. Most low-income countries did not support launching a new round and most wanted a greater focus on implementation issues from the Uruguay Round. But they were far from united. Some low-income countries, particularly South American ones such as Argentina, Brazil, Paraguay, Uruguay, Bolivia and Chile, could go along with the launch of a new round as long as it included significant agricultural trade reform.[31] After enormous pressure from high-income countries the Doha meeting did, in fact, launch a new round although there was continuing nervousness about it among most low-income countries.

The other main issues discussed at the Doha meeting were: market access and the tariffs on non-agricultural products, agriculture, services trade, the TRIPS agreement, the Singapore issues, implementation issues and special and different treatment for low-income countries.[32] The Singapore issues were particularly divisive. At Doha low-income countries got a commitment that the intellectual property rights agreement as it applied to medicines would be reviewed; they also received a 'waiver' for a pre-existing concessional trade agreement between Europe and a large number of low-income countries in

Africa, the Caribbean and the Pacific but otherwise they only got vague rhetorical acknowledgements of their trade concerns.[33]

The Cancún WTO meeting

In September 2003, almost two years after the start of the Doha Round, a new meeting of WTO trade ministers was held at Cancún, Mexico. Like the Seattle talks the Cancún meeting collapsed. The Singapore issues were again the sticking point. Low-income countries remained opposed to them, and African countries in particular were determined in their opposition, particularly after the United States gave dismissive treatment to a complaint by a number of them about its subsidisation of cotton exports. Cancún marked a major change in the power relationships at world trade talks. Until Cancún low-income countries had generally found it impossible to counter the combined might of the European Union and the United States (although they had some success at Seattle in 1999) but at Cancún they formed an alliance – the G22 – which took the fight to the EU/US axis for the first time. The G22 (which later became the G20) was led by Brazil and India and also included China, Argentina, Bolivia, Chile, Colombia, Costa Rica, Cuba, Ecuador, Egypt, El Salvador, Guatemala, Mexico, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand and Venezuela. For the first time, low-income countries were able to use their cohesiveness and their growing trade strength to mount a major challenge to the EU and US. High-income countries could no longer take low-income countries for granted as they had ever since the Kennedy Round in the 1960s.

New issues in the Uruguay Round

The final Uruguay Round agreement signed in 1994 was very long and complex, embracing no fewer than eighteen separate constituent agreements on various trade issues, many of them new. Of the eighteen agreements, the following six were the most controversial:

- Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Table 2.1 Timeline of global trade negotiations

1947–48	Talks held in Havana attempt to establish International Trade Organisation (ITO) subject to crucial US approval
1947	First round of global trade talks under General Agreement on Tariffs and Trade is held in Geneva – 23 participating countries
1949	Second GATT round of global trade talks, the Annecy Round, is held – 13 participating countries
1950	US President Truman and the US Congress scuttle the establishment of the ITO
1950	Third GATT round of global trade talks, the Torquay Round, is held – 38 participating countries
1955	The United States is allowed to keep agricultural subsidies despite the apparent conflict with GATT
1956	Fourth GATT round of global trade talks, the Geneva Round, is held – 26 participating countries
1957	The European Economic Community is established despite apparent conflict with GATT
1960–61	Fifth GATT round of global trade talks, the Dillon Round, is held – 26 participating countries
1962–67	Sixth GATT round of global trade talks, the Kennedy Round, is held – 62 participating countries
1973-79	Seventh GATT round of global trade talks, the Tokyo Round, is held – 99 participating countries
1986-93	Eighth GATT round of global trade talks, the Uruguay Round, is held – 125 participating countries
1995	The World Trade Organisation begins operation
1996	High-income countries unveil new trade issues of investment, government procurement, competition and trade facilitation at Singapore WTO meeting
1999	WTO meeting held in Seattle fails to launch proposed new 'Millennium Round' of global trade talks
2001	Ninth GATT round of global trade talks begins at WTO meeting held in Doha – 148 participating countries
2003	WTO trade talks at Cancún collapse over 'Singapore issues'
2004	Framework agreement for Doha Round is agreed to

Source (for GATT Rounds information): Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations* (fifth edition), St Martin's Press, New York, 1997.

- General Agreement on Trade in Services (GATS)
- Agreement on Textiles and Clothing
- Agreement on Agriculture
- Agreement on Trade-related Investment Measures (TRIMS)
- Agreement on the Application of Sanitary and Phytosanitary Measures

The TRIPS Agreement

The TRIPS agreement was, and still is, one of the most contentious agreements struck during the Uruguay Round. Its aim was to bring all WTO members into a global patent regime under which global patent holders could be satisfied that their intellectual property rights were being honoured throughout the world by all WTO members. The TRIPS agreement largely got into the Uruguay Round as a result of intense lobbying of the Reagan administration by a number of large US software, pharmaceutical and chemical companies which wanted the administration to quantify the amount of revenue they claimed they were losing from patent piracy.[34] Originally the TRIPS agreement was simply going to be an attempt to coordinate internationally patent laws to stop counterfeiting and copying etcetera, but it ended up becoming a comprehensive agreement covering the trade in protected intellectual-property-related goods and services.[35] Although at first glance the idea of global coordination of trade in copyrighted goods and services seems reasonable, there was considerable concern about what effect the TRIPS agreement would have on the availability of affordable essential medicines as well as on access to plants and genetic material traditionally used in low-income countries. Before the TRIPS agreement, mainly Third World-based makers of generic medicines had been able to market them at a fraction of the price they sold for in high-income countries. Indian generic drug companies, for instance, were able to sell anti-retro viral triple therapies against AIDS for less than US$1,500 in low-income countries whereas patented equivalents sold for between US$10,000 and US$15,000.[36] This alarmed large transnational corporation drug companies who, fearful of losing a lot of their international market share, created the TRIPS agreement as insurance against this. Following the signing of the TRIPS agreement there was a backlash against it, particularly after a coalition of 39 drug companies took the South African government to court in 2001 after it allowed generic HIV/Aids drugs to be made available in the country. The backlash produced general agreement that there needed to be a relaxation of the TRIPS deal particularly in the way it applied to essential medicines, although the US wanted a narrow relaxation applicable only to a few specific diseases such as tuberculosis, malaria and Aids. One of the few victories for low-income countries at the Doha meeting was agreement on a fairly broad relaxation of the TRIPS agreement. However low-income countries without any generic drug manufacturing capacity were left with a cumbersome system for obtaining these drugs that involved a complicated licensing system coupled with guarantees that the generic drugs would not be re-exported.

The TRIPS agreement could also restrict access to plants and genetic material traditionally used in low-income countries. Patents have already been issued in Europe, and in the US, for products and formulas long known to farmers in low-income countries and long considered public property there. US companies have already patented the Mexican Yellow Enola Bean, Basmati rice and selected maize genes, while a European company has patented a process for extracting medical substances from the Indian neem tree, a process known to Indian farmers for centuries.[37]

The General Agreement on Trade in Services

Services are the fastest-growing area of global trade. In 1985 total global trade in services was worth US$373 billion but by 2001 it was worth US$1,446 billion; today it accounts for about a fifth of all world trade.[38] High-income countries – particularly the United States and the European Union – dominate the global trade in services and, unsurprisingly, had tried since at least the early 1980s to get services trade included in global trade negotiations; they succeeded in the Uruguay Round. In 2001 the United States and the high-income countries of Western Europe together accounted for 64 per cent of all the world's service exports.[39] A major force behind the inclusion of the GATS agreement was lobbying by large finance companies including American Express, Credit First Suisse Boston and the American International Group. Low-income countries put up strong resistance to the GATS agreement during the Uruguay Round, however. They didn't want it linked to other agreements and they wanted an assessment of the agreement's impact before it was signed. In the end they got neither, and they only reluctantly agreed to it as a trade-off for greater access to high-income-country agricultural markets under the Agreement on Agriculture. High-income countries originally wanted a 'negative list' approach to the GATS agreement under which it would be assumed that a specific service industry in a specific country was open to international competition unless quarantined by that country. Low-income countries got this changed to a 'positive list' regime under which a service industry would not be opened unless specifically nominated by its country. A cumbersome bidding regime was also set up to implement the GATS agreement: WTO member countries would nominate specific service sectors they wanted other specified countries to open up, then the specified country would come back with an offer based on concessions it felt it could win from the first country in other service sectors. It was agreed at the Doha meeting that the requests phase would be finished by the end of June 2002 and the offers phase would finish at the end of March 2003 but at the time of writing the response had been underwhelming and many major WTO members had yet to make GATS offers. Many members are waiting to see what agricultural trade concessions high-income countries are willing to make before they make GATS offers. Low-income countries are reluctant to open up service sectors that are of interest to high-income countries, such as financial, professional, courier and transport services, while high-income countries are reluctant to open up sectors that are of interest to low-income countries by, for example, allowing low-income-country professional people to work in high-income countries.[40] The Doha Round framework agreement, finalised in mid-2004, came up with a new GATS negotiations deadline of May 2005. The 2004 framework agreement used wording that contradicted the supposedly voluntary nature of the GATS agreement by saying 'members who have not yet submitted their initial offers must do so as soon as possible'.

Low-income countries are concerned that the GATS agreement could eventually lead to the privatisation of essential government services such as water and electricity supply, health and education. About half of all the foreign direct investment that goes into low-income countries is associated with service industries,[41] so many low-income country governments see the GATS agreement as a backdoor way of foreign investors getting control of government services. There is some ambiguity about the applicability of the GATS agreement to government services but it definitely applies where a government sells a service – so water and electricity supply could easily be targets. An oft-quoted example of the devastating impact that service privatisation can have in low-income countries is the water supply privatisation undertaken by the Bolivian government in the city of Cochabamba in 1999 under pressure from the World Bank. A consortium led by a subsidiary of the Bechtel transnational corporation won the contract and promptly raised water prices by as much as 400 per cent.[42] This caused huge protests in 2000 and 2001 until finally a hitherto reluctant Bolivian government cancelled the privatisation contract, to which Bechtel responded with a US$25 million lawsuit for loss of profits.[43] In recent years more global trade issues involving services have been challenged through the WTO. In 2004, for instance, the United States successfully challenged the right of Mexico to regulate Mexico's domestic telecommunications industry and Antigua and Bermuda successfully challenged the right of the US to regulate the US gambling industry.

The Agreement on Textiles and Clothing

Textiles and clothing is one of the few trade areas in which low-income countries have long enjoyed a competitive advantage. Textiles manufacturing is generally labour-intensive and often uses raw materials, such as cotton, that are grown in relative abundance in low-income countries. Clothing and textile export industries have traditionally been viewed as a reliable early rung on the ladder of low-income country industrialisation and were used by countries such as Japan and Hong Kong when industrialising after the Second World War. Unhappily for low-income countries, clothing and textiles is also a major sector in high-income countries and manufacturers in those countries have long felt threatened by exports from low-income countries. This fear has been expressed through a series of discriminatory 'export restraint' agreements between high- and low-income countries that date back to the first such agreement struck between Japan and the US in 1957. The agreements struck since have embraced a number of major textile exporting and importing nations and include the Short-Term Agreement of 1961, the Long-Term Agreement of 1962 and the Multifibre Agreement of 1973 (which like the Long-Term Agreement of 1962 was renewed several times).[44] These agreements generally restrained textile exports by allocating export quotas to specific countries. Since these agreements were unambiguously aimed at restraining exports from low-income countries their termination was a major inducement used to get low-income countries involved in the Uruguay Round. The Agreement on Textiles and Clothing negotiated during the round stated that the liberalisation of the sector was to be phased in in four stages that would take effect in 1995, 1998, 2002 and 2005. The 1995 stage would liberalise 16 per cent of 1990 exports (by volume), the 1998 stage a further 17 per cent, the 2002 stage another 18 per cent and the final 2005 stage the final 49 per cent.[45] Unfortunately the Agreement on Textiles and Clothing was not specific about which clothing and textile products high-income countries had to open up in each stage; they were largely allowed to determine for themselves what items were first exposed to this liberalisation. The result was that rich countries were highly selective in the import restrictions they elected to lift: liberalisation often occurred in categories that poor countries don't compete in – such as parachutes and felt hats – or in areas that have little added value. By January 2002 only 12 per cent of the liberalisation in the US and 18 per cent of the liberalisation in the European Union had been applied to higher-value textile products.[46] This has created a lot of mistrust between low- and high-income countries. Many low-income countries feared that after the sector was fully liberalised in January 2005 many high-income countries will go back on what they agreed to. As if to confirm this fear, in mid-2005 the United States government introduced 'safety quotas' that may last until 2008 and limit annual import volume increases to 7.5 per cent on seven types of Chinese imports, among them textiles including trousers, shirts and underwear.[47] After large increases in Chinese textile imports into Europe in early 2005 the (new) European Union trade representative, Peter Mandelson, started building a similar case for protectionist measures saying 'Europe cannot stand by and watch its [textile] industry disappear.' Many low-income countries also fear the full liberalisation of the trade in textiles will result in China and India grabbing a lot of global market share from other low-income countries (see Chapter 4).

The Agreement on Agriculture

Agriculture was, and remains, easily the most contentious issue in both the Uruguay and Doha Rounds. The Doha Round could collapse over agriculture and the Uruguay Round went very close to collapsing over it. The Uruguay Round was only got back on track by negotiations between the United States and the European Union at Blair House in Washington in December 1993 which originally agreed to reduce agricultural subsidies by 21 per cent over six years then watered this down after resistance from the European Union (particularly from France).[48] Even though agriculture was of vital importance to low-income countries they were not involved in these crucial negotiations.

High-income countries are sensitive about agriculture because they dominate the global trade in it and their dominance shows little sign of waning. In 2000 a full 64 per cent of all the global imports of agricultural raw materials came from developed countries, slightly up on the 61 per cent that came from them in 1980. By way of contrast, in both 2000 and 1980 developing countries were the source of only 30 per cent of the world's traded agricultural produce.[49]

The final Uruguay Round Agreement on Agriculture had three fundamental pillars. One was market access: high-income countries agreed to reduce agriculture import tariffs by 36 per cent over six years and low-income countries agreed to lower their import tariffs by 24 per cent over ten years.[50] The second pillar was export subsidisation: high-income countries agreed to reduce the value of their export subsidies by 36 per cent, and their volume by 24 per cent, over six years; low-income countries agreed to make 24 per cent and 10 per cent cuts to value and volume respectively over a ten-year period.[51] The third pillar concerned cuts to domestic support. High-income countries agreed to cut total domestic farm support by 20 per cent over six years while low-income countries agreed to cut it by 13 per cent over ten years.[52]

For the purposes of applying the agreement, agricultural subsidies were separated into three categories: an 'amber box' that covers all trade-distorting domestic support, a 'blue box' that covers payments linked to indicators such as the area of a farm or the number of its animals but which (supposedly) limit production and therefore (supposedly) have a limited trade effect, and a 'green box' covering those subsidies that do not distort trade.[53] The agreement also said WTO members could not challenge each other's agricultural subsidies through the WTO dispute process until the end of 2003.

At first glance the agricultural subsidy reductions seemed reasonably ambitious but, as with the clothing and textile agreement, the devil was in the detail and high-income countries have exploited that detail to the hilt. The perilous detail in the agriculture agreement comes in the treatment of the boxes. None of the subsidies in the blue box have to be cut at all. The blue box was a last-minute addition to placate the European Union which argued that the other cuts in the agreement would have a detrimental effect on its farmers. But the green box too is unaffected by the agreement, which means that only the amber box is affected. In the years since the agreement on agriculture came into effect high-income countries have made an art form of juggling the box classification of their agricultural subsidies. The European Union has progressively moved subsidies out of the amber box and into the green and blue boxes, and from the very start the US made sure that most of its subsidies fell into the green box. The net result of all the shifting has been that nothing stopped high-income countries from raising the value of their farm support paid between 1999 and 2001 by 9 per cent compared to its 1986–1988 value.[54] In 2002 the US Congress even passed a new Farm Bill that provided US$175 billion in assistance to farmers over ten years,[55] and in late 2002 the (then) member states of the European Union agreed that agricultural assistance under its Common Agricultural Policy would rise from the current €43 billion level to about €49 billion by 2013.[56] Most of these subsidies go to large, industrial-scale farms and not to smaller, more sustainable farms. In 2002 industrial-scale farms in the US received US$7.8 billion in subsidies or 65 per cent of total US government farm payments; almost 30 per cent of the subsidies went to the largest 2 per cent of farms with over 80 per cent going to the largest 30 per cent.[57]

In addition to its blatant increases in farm subsidisation the US has a system of 'export credits' that extends government-backed bank loans with low interest rates to farmers; these loans are effectively a form of subsidy but the US has so far refused to classify them as such. Further violation of the spirit, if not the letter, of the Agreement on Agriculture takes place in the form of a high level of dumping of subsidised agricultural exports by high-income countries, particularly the EU and US, and in the form of manipulation of the agreed tariffication process by high-income countries where at the start of the agreement they set very high tariffs so that the agreed tariff cuts will have little final effect.[58] The tariffication process has been further weakened by aggregation of different tariffs that disguise tariffs applied to the most sensitive products[59] (in an echo of the violation technique used on the clothing and textile agreement).

Agricultural subsidisation remains a very, very vexed issue. The whole future of WTO trade agreements largely rests on the future of agricultural subsidies and their place in global trade agreements. Low-income countries see them as a major barrier to greater trade wealth, and high-income countries see them as a way of preserving an important part of both their culture and their industry base. In many ways the very tolerance of agricultural subsidies is contrary to the bedrock philosophy of the WTO, but in 1955 the United States threatened to leave the GATT unless a permanent exemption was granted to its agricultural subsidies and they have been tolerated within the GATT/WTO system ever since .[60]

It is often claimed that government support for agriculture in high-income countries exceeds US$300 billion per year. This statistic needs to be treated with caution. It is a statistic generated each year by the Organisation for Economic Cooperation and Development (OECD). For 2002 they claim the support amounted to US$311 billion, or nearly US$1 billion per day. This figure is not the amount actually spent by high-income countries on farm support, however. It is mainly generated by comparing the price of agricultural produce in OECD countries with the prices that would be paid if their farm trade was completely open and cheaper agricultural produce could be bought in those countries. So it is mainly an expression of how much more OECD consumers pay for their farm produce rather than an indicator of actual farm subsidy payments. The difference is keenly illustrated by the European Union's agricultural subsidies. In 2003 actual spending by the European Union on agricultural subsidies came to US$54 billion but the OECD claims its total (effective) subsidisation was US$121 billion, more than twice the amount actually paid.[61]

In July 2004 WTO members met in Geneva to hammer out a framework for the negotiations over the Doha Round following the collapse of negotiations at the Cancún meeting the previous September. As always, negotiations over agricultural trade were central to the framework negotiations. The key negotiations were held between the EU, the US, Australia, India and Brazil. Although the talks produced an agreement that kept the Doha Round alive, the agricultural part of it was deeply flawed and looked as though it would still allow significant evasion by high-income countries. Among its flaws were:

- a new category of 'sensitive' agricultural industries, such as rice in Japan and dairy in Switzerland, that high-income countries could continue to apply significant protection to (this was included to win over countries such as Japan);

- no reduction in green box subsidies and an expansion of blue box subsidies to include some new US subsidies. The EU and US refused to consider any overall capping and reduction of blue box subsidies. With respect to blue box subsidies the agreement even said ‘in cases where a member has placed an exceptionally large percentage of its trade-distorting support in the blue box, some flexibility will be provided on a basis to be agreed to ensure that such a member is not called upon to make a wholly disproportionate cut’;
- domestic support for agriculture, including blue box support, in the first year and throughout the implementation period of the agreement, to be reduced by 20 per cent (but still to be able to end up equalling 80 per cent of its current level);
- the 20 per cent reduction in domestic support to be based on allowable subsidies – not on actual subsidies (which are generally lower than the allowable subsidies) – which means that the US and EU will be able to lower the overall cap on their permissible agriculture subsidies without lowering the amount of subsidisation they actually pay out. In the US the Bush administration, for instance, was confident it could meet the 20 per cent farm subsidy reduction without touching the amount it pays out because it spends well below WTO limits;[62]
- a commitment by the EU to eliminate its export subsidies but the lack of an agreed timetable for the elimination – it was made clear that it was dependent on other countries doing the same. The French agriculture minister, Herve Gaymard, thought the end date for export subsidies would not be before 2015 or 2017;[63]
- no formula for reduction of agricultural import tariffs; instead the agreement simply developed guiding principles;
- no special treatment extended to cotton subsidisation which had played a major part in the collapse of the Cancún talks (although high-income countries said they would consider giving its blue

box subsidisation specific attention and the US made vague commitments about speeding up reduction of its cotton subsidies). Cotton subsidies were the subject of a WTO ruling against the US in April 2004;

- no specific preservation of low-income country preferential trade agreements such as the one between the European Union and African, Caribbean and Pacific countries (the Cotonou agreement).

Basically the Geneva framework agreement did nothing to stop further exploitation of the blue and green box subsidisation system by high-income countries, and it looks set to continue the problems of the Uruguay Round. The then trade representative for the US, Robert Zoellick, told congressman Tom Daschle that the framework agreement 'will not weaken our ability to support our farmers'.[64] Even the conditional pledge by the European Union to eliminate its export subsidies is much less generous than it appears. In 2004 European Union export subsidies accounted for just €3 billion of its annual €45 billion farm subsidy programme.[65] The EU and the US together spend US$70–80 billion each year on agricultural subsidisation and the Geneva agreement did very little to curb that spending. By 2005 agricultural trade was once again shaping up as the lynch pin to the successful conclusion of a trade round, in this case the Doha Round. Many low-income countries were reluctant to make commitments about freeing up trade in services and non-agricultural goods before high-income countries made genuine commitments about freeing up agricultural trade.

The Agreement on Trade-related Investment Measures (TRIMS)

The TRIMS agreement seeks to eliminate the trade-distorting effects of foreign investment restrictions in either low- or high-income countries. Within 90 days from the start of the WTO on 1 January 1995 member countries were supposed to identify and eliminate measures that were inconsistent with the agreement; high-income countries had two years to eliminate them while most low-income countries had five years (with the least developed low-income countries having seven).[66] Most high-income countries – the US and Japan in particular – were keen to have the TRIMS agreement included in the Uruguay Round. Foreign investment, particularly in low-income countries, often has little, if any, spin-off benefit attached to it for local businesses. In an effort to change this, some low-income countries in the past have attached local content rules to foreign investment in their economy that obliged foreign investors to buy a certain proportion of their content from local suppliers. Such local content rules have been fairly common in the car making industry, and countries such as South Korea, China and Malaysia have used them to ensure that they get a significant benefit from foreign investment.[67] But high-income countries hate local content rules and have consistently fought them and challenged them through the WTO. Since the TRIMS agreement began, the car making industry has attracted the most challenges lodged by high-income countries against low-income countries about breaches of the agreement. Between 1995 and February 2002, 11 complaints were lodged by countries including Japan, the US and the EU against the local content rules of the car making industries of four low-income countries that have large future potential car markets: Brazil, Indonesia, India and the Philippines.[68] In 1997 a WTO dispute panel upheld a Japanese complaint about the Indonesian car making industry which it held to be in violation of the TRIMS agreement.[69] A major problem with the TRIMS agreement is that more and more foreign direct investment in low-income countries is associated with mergers and acquisitions of locally owned businesses. Mergers and acquisitions rose from an average 22 per cent of foreign direct investment in low-income countries between 1988 and 1991 to 72 per cent between 1992 and 1997.[70] So the TRIMS agreement effectively conspires with the increasing amount of overseas takeover activity to ensure that low-income countries get no local benefit from foreign investment. Unsurprisingly, although originally viewed somewhat benignly by low-income countries, the TRIMS agreement is these days viewed by them with a lot of suspicion.

The Agreement on the Application of Sanitary and Phytosanitary Measures

The sanitary and phytosanitary agreement (SPS agreement) seeks to facilitate trade by eliminating differences in food, animal and plant regulation. It sets criteria that WTO member countries must follow with regard to domestic policies that affect human health.[71] The agreement also applies to the use of exhaustible natural resources. A country can adopt a health standard that is different to those agreed under the SPS agreement but if it does so it has to justify it, and justification generally means that it does not set up 'unnecessary obstacles to international trade'.[72] The SPS agreement has been criticised both by groups within the global justice movement (sometimes known as the antiglobalisation movement) and by low-income countries. Groups in the global justice movement argue the agreement represents a 'race to the bottom' and makes trade a barrier to adopting stringent health standards. Low-income countries argue the agreement is often used by high-income countries as a form of protectionism. They argue that high-income countries often use the agreement as an excuse to bar imports from low-income countries knowing that low-income countries often do not have the resources to meet the standards set by high-income countries.

New issues in the Doha Round

The Singapore issues

As previously mentioned (see pages 58 and 59), the Singapore issues (sometimes just known as the 'new issues') – investment, competition, government procurement and trade facilitation – were introduced into global trade negotiations during a WTO meeting of trade ministers held in Singapore in 1996. The European Union was the original backer of these issues at the 1996 meeting[73] although they came to be enthusiastically embraced by nearly all high-income countries, especially the US, the EU, Japan, Switzerland and Australia.[74] The US, however, was less enthusiastic about the investment and competition parts of the Singapore issues than the EU was.[75] Low-income countries were generally opposed to the Singapore issues, seeing them as an unnecessary expansion of global trade rules, although during the 2001 Doha meeting of the WTO Columbia, Uruguay and Peru supported starting negotiations over the Singapore issues while India, Zimbabwe, Nigeria, Kenya, Senegal, Malaysia, Indonesia, Thailand, Egypt, Jamaica, Cuba, St Lucia, St Vincent and Belize all remained trenchantly opposed to them.[76] The 1996 WTO meeting in Singapore only agreed to set up working groups into the four issues. At the 2001 WTO meeting in Doha the issues were hotly disputed. Those who backed the new issues thought the Doha meeting made a clear decision to start negotiating on the issues at the 2003 WTO meeting in Cancún while those opposed thought the Doha meeting only agreed to make a decision at Cancún about whether negotiations should start or not. In the end the Singapore issues ended up being a very sensitive issue at Cancún that, along with agricultural subsidies, were responsible for the collapse of the Cancún talks. At Cancún the European Union offered to withdraw the investment and competition issues in the face of unrelenting opposition from the new G22 alliance of low-income countries. By 2004 it appeared as though only the trade facilitation issue had any serious chance of remaining in the Doha Round negotiations, though many high-income countries (the EU in particular) have kept talking about having 'plurilateral'/two-speed trade agreements where WTO members can retain the option to sign up to the Singapore issues if they wish. Many high-income countries, particularly the US, have included the Singapore issues in their bilateral trade agreements regardless of their reception in the Doha Round. Although three of the four Singapore issues now seem to have dropped out of the Doha Round the framework agreement for the round agreed to in July 2004 did not specifically delete the issues, leaving the (small) possibility they could be revisited in the future. Because the Singapore issues retain some potency it is worth briefly examining them.

Investment

The investment Singapore issue is an attempt by high-income countries to protect the (perceived) rights of foreign investors. Global foreign investor agreements go back as far as the eighteenth century. Since the Second World War various parts of the United Nations have attempted to codify the rights of foreign investors on at least three occasions.[77] The year before the 1996 WTO Singapore meeting the Organisation for Economic Cooperation and Development launched its own foreign investor agreement – the Multilateral Agreement on Investment – which was backed by the US Council for International Business but which met with considerable public resistance and was finally dropped in 1998. The United States had originally wanted the investment Singapore issue to cover all types of foreign investment including purchases of shares, bonds and other financial instruments[78] but in the end it applied just to foreign direct investment (that is, to direct foreign ownership of businesses etcetera rather than indirect holdings). Investment as a trade issue is generally opposed by most low-income countries, and at the 2001 Doha meeting India, China, Cuba, Pakistan and Zimbabwe tried to relate the issue to the obligations, rather than the rights, of foreign investors (much to the chagrin of high-income countries).[79]

Competition

The competition Singapore issue is closely linked to the investment issue. Like the investment issue the aim of the competition issue is to give foreign companies the same rights as local companies. Historically the issue has been much kicked around by both low- and high-income countries. In 1980, high-income countries refused to sign up to a UN protocol on the codification of competition practices that low-income countries wanted to make legally binding[80] but by 1996 they were keen on the idea as a way of increasing market access in low-income countries. Most low-income countries do not have competition policies of their own; instead their governments generally intervene directly if they think there has been competitive malpractice. By 1990 only 16 low-income countries had competition policies. Most high-income countries have only adopted competition policies relatively recently – in the case of Japan and the EU during the last fifty years.[81] Most low-income countries think WTO competition policies could be used to wipe out their locally owned industries and are therefore suspicious of them. Their suspicion is heightened by the proposal to include in the investment Singapore issue a clause that would allow foreign investors to sue a government for lost profits if it felt its profit-making opportunities were being unreasonably curtailed (as happened in the infamous 2000 case in which the US Metalclad corporation successfully sued a Mexican council for lost profits (under the North American Free Trade Agreement) after it was denied permission to establish a toxic waste dump).[82]

Government procurement

The government procurement Singapore issue is only meant to relate to transparency in government procurement (purchasing). Low-income countries, however, fear that the possible introduction of the issue into the Doha Round could, in future, open their government purchasing to fully-blown international competition. Globally, government procurement accounts for a huge share of the overall purchase of goods and services. Non-defence procurement by all the world's governments is estimated to be worth about US$1,500 billion each year.[83] In high-income countries government procurement is equal to about 10 and 20 per cent of gross domestic product while in low-income countries it is equal to about 9 and 13 per cent.[84] A voluntary government procurement agreement was inserted into the Uruguay Round agreement but was only signed by a few high-income countries.

Trade facilitation

Trade facilitation is the least contentious of the Singapore issues and seems likely to survive the Doha Round. The issue is concerned with the harmonisation and standardisation of trading procedures around the world. Traditionally trade facilitation has not been part of global trade negotiations and has instead been managed by the World Customs Organisation, the United Nations Conference on Trade and Development, and the United Nations Economic Commission for Europe.[85] In 1996 transnational corporations began arguing that much more work needed to be done on trade facilitation, claiming that costs associated with border delays, excessive documentation and lack of automation in many countries etcetera were making trade unnecessarily expensive.[86] The danger for low-income countries is that the measures transnational corporations want them to implement could be quite expensive and could reduce the transparency of global trade. Amongst other things, reduced trade transparency could reduce the ability of low-income countries to control transnational corporation transfer pricing – which has a huge influence on where transnational corporations report their profits (and therefore where they pay their taxes).[87] High-income countries are demanding that the transfer price valuations supplied by transnational corporations be simply accepted without question by host governments even though this policy was rejected in both the Tokyo and Uruguay Rounds.[88]

Other new issues: labour and environment clauses and electronic commerce

There are three other new issues that, from time to time, high-income countries show interest in including in WTO trade negotiations: labour and environment clauses and electronic commerce.

Labour clauses are clauses that would allow a country to restrict imports from another country that allowed dubious labour practices such as child labour. The possibility of introducing such clauses into new trade rounds was raised at the 1996 WTO meeting in Singapore, and the US also raised it at the failed WTO meeting in Seattle in 1999. On both occasions the idea did not get support – the Singapore meeting decided labour clauses should remain the province of the International Labor Organisation. Low-income countries view labour clauses quite cynically and generally feel they amount to yet another form of high-income country protectionism.

Environment clauses are somewhat like labour clauses in as much as they would generally allow a country to restrict imports from another country that had dubious environmental standards. The European Union has been the main champion of their inclusion in trade negotiations. Environment clauses cover a plethora of sub-issues, including the relationship between environmental trade measures and multilateral environment agreements, the environmental impact of process and production methods, the use of eco-labelling, the application of the environmental precautionary principle and the access to, and liberalisation of, trade in environmental technology.[89] Generally high-income countries want to be able to more easily apply environmental standards to trade and want to export their environmental technology more freely. Low-income countries again see the potential for more high-income country protectionism in such measures and want to be able to develop their own environmental technology instead of importing it from high-income countries.

Despite low-income country resistance to labour and environment clauses being attached to trade agreements, in October 2004 the European Union announced it would include such clauses in future preferential trade arrangements made with low-income countries. Pascal Lamy, the then EU trade commissioner, said low-income countries that implement the Kyoto protocol and other international treaties on human rights, labour standards and the environment would be rewarded with lighter tariff burdens.[90]

Electronic commerce was first raised as a potential new WTO trade issue in 1998. It mainly covers services delivered via computers and the Internet. High-income countries see a lot of export potential for themselves in electronic commerce and have already negotiated a provisional WTO agreement that such computer-based services should be able to enter a country free of any charge or tariff.[91] The United States has traditionally been a keen champion of duty-free electronic commerce and has pushed the measure very assertively at the WTO. This measure threatens to reduce the ability of low-income countries to develop their own electronic commerce industries and also eliminates their ability to raise revenue from the taxation of electronic commerce-based trade.

Negotiating tactics within the WTO

Because international trade now accounts for a large proportion of the world's economic activity there is a huge amount at stake in global trade negotiations. It is not surprising that countries with a large amount of trade and economic clout are generally more than willing to use it during global trade negotiations to get their way.

Debt relief, aid or trade preferences pressure

High-income countries in particular are not adverse to using fairly blunt negotiating tactics during trade talks such as using debt relief or aid or preferential trade deals – and the threat of their withdrawal – to win low-income countries across to their point of view. The Doha Round has been plagued with debt relief/aid/preferential trade bribery. Tactics used during the round so far include:

- before the 2001 WTO meeting in Doha the US tried to bribe India, which it had often found obstructionist in past trade negotiations, with US$450 million in bilateral tariff cuts;[92]
- the US signed trade and investment deals with eight West African countries before the Doha meeting;[93]
- the European Union used its preferential trade deal with African, Caribbean and Pacific countries to get their support for the Singapore issues during the Doha meeting;[94]
- Pakistan was given debt relief and preferential textile trade rights by the US in return for its support at the Doha meeting;[95]
- before the Doha meeting the EU trade minister, Pascal Lamy, made many trips to low-income countries reminding them of the importance of various preferential trade agreements they had with the EU as a way of getting their support for the Singapore issues;[96]
- before the 2003 WTO meeting at Cancún, Tanzania and Kenya were threatened with the loss of preferential trade arrangements

unless they dropped their opposition to high-income-country trade positions;[97]

- Japan used several threats of withdrawal of foreign aid to get low-income-country compliance with its positions at Cancún;[98]
- the US threatened Uganda with withdrawal of concessionary trade arrangements when it considered joining general African opposition to high-income-country trade positions at Cancún;[99]
- just before the Doha Round's framework agreement was agreed in July 2004 the US gave Brazil, a key player in the framework's formulation, its second-highest agricultural import quota;[100]
- also just before the finalisation of the July 2004 Doha framework agreement the EU withdrew US$60 million in aid to Kenya which had led a walkout of low-income countries at Cancún.[101]

Pressure on trade ministers

Another blunt negotiating tactic sometimes used by high-income countries during WTO negotiations is to go over the head of the low-income-country trade minister taking part in the negotiations if her or his position is not agreeable to them. Phone calls are made to senior government officials back home who in turn pressure their trade ministers to change their positions. The US is a well-known practitioner of this tactic and is known to keep a blacklist of WTO trade ambassadors it would like to see removed.[102] At least five WTO ambassadors who have been unpopular with the US were removed after the 2001 Doha meeting.[103] One trade ambassador who lost his job in this way was the WTO trade ambassador for the Dominican Republic, Dr Frederico Cuello.[104]

Green room and mini ministerial decision making

Another common tactic used to pressure low-income countries during WTO negotiations is to exclude them from pivotal 'green room' talks that take place during negotiations and to also exclude them from 'mini ministerials' that take place before major WTO meetings. Green room meetings are small group meetings occurring during WTO negotiations that tend to make the key decisions of the meeting – there is a lot of pressure to agree to green room meeting decisions once they have been made. Mini ministerials are informal meetings of WTO trade ministers arranged by specific countries before WTO meetings which, although not formally endorsed by the WTO, nonetheless can be crucial in determining positions and alliances before major WTO meetings. The most influential WTO members – the EU, the US, Japan and Canada (known as 'the Quad') – nearly always attend every green room meeting and mini ministerial, but low-income countries tend to be invited only if they represent a strategic alliance of other low-income countries; otherwise they don't get a look-in. During the final, all-important green room meeting of the Doha meeting half the high-income countries present at the meeting were included in the green room negotiations but less than one eighth of all the low-income countries were included.[105] At the mini ministerials held before the Doha meeting in Mexico and Singapore all the Quad members were invited and about a quarter of other high-income WTO members got invitations but only 3 per cent of least-developed-country WTO members were invited to attend.[106]

WTO rulings

One of the 18 specific agreements that made up the Uruguay Round was the Dispute Settlement Understanding. This agreement fundamentally changed the way global trade disputes are settled. During the reign of the GATT trade disputes were settled diplomatically. This allowed a resolution that produced clear winners and losers but meant that more neutral outcomes were generally explored first. The diplomatic cushioning of GATT dispute outcomes was further enhanced by a need for all rulings to be adopted by consensus by the GATT – in theory this meant that a country with a ruling against it could block such a ruling, though in practice this seldom happened. The Dispute

Settlement Understanding made trade disputes much more adversarial. Under the new rules all WTO disputes are taken to a three-person WTO-appointed panel that makes a ruling. The rulings normally have compliance deadlines and if these are not met financial compensation or retaliatory trade sanctions can be imposed against the country against whom the ruling has been made. The rulings can be appealed to another WTO-appointed body although, in practice, very few WTO rulings are overturned by the appeal body – in the nine-year history of the WTO to 2004 only two rulings have been overturned.[107] Once a ruling has been appealed no further appeals can be made outside the WTO system.

Much of the WTO dispute resolution system is cloaked in secrecy. All documents are confidential unless a government chooses to release its dispute documents.[108] Representations by third parties, such as non-government organisations or businesses (*amicus* briefs), are not allowed unless they form part of a government's case.[109] There is also a lack of transparency associated with the people who hear the disputes. The panellists are selected from a roster of people who have past experience in trade law and international commerce, but this narrow set of qualifications frequently fails to cover the broad spectrum of issues that WTO disputes often touch on.[110] The panellists produce a single ruling that all of them put their names to so one never knows what the specific opinion of each individual panellist is.[111]

Bringing a dispute before the WTO takes a lot of time and money so, unsurprisingly, the main plaintiffs are high-income countries. Between January 1995 and January 2003 some 63 per cent of the 279 WTO challenges heard were brought by high-income countries with the United States, the European Union and Canada being the top three plaintiffs.[112] As of January 2003 no least-developed country had brought a challenge to the WTO. In most cases the challenger wins. In 85 per cent of the completed cases heard between January 1995 and January 2003 the WTO ruled in favour of the challenger; in cases where a high-income country is pitted against a low-income country the rate is even higher – 94 per cent.[113] A minor consolation for low-income countries, however, is that most cases are brought by high-income countries against other high-income countries and only about a quarter of all cases are brought by high-income countries against low-income countries.[114]

Low-income countries fear the WTO disputes process is allowing high-income countries gradually to chip away at what remaining rights the low-income countries have under international trade law. In 1996 the US government challenged a European Union trade measure that gave preferential access to bananas grown in Africa, the Caribbean and the Pacific. The US was acting on behalf of the Chiquita transnational corporation which was excluded from the EU arrangement. The WTO ruled in favour of the US and the EU was eventually forced to give some of its preferential access to US and Latin American producers.[115] In 1997 the US mounted a challenge against the Indian government after its parliament temporarily refused to pass legislation giving effect to the TRIPS agreement. The WTO ruled against India and it was forced to agree to TRIPS-related patent applications made before its parliament eventually passed the TRIPS legislation. It was also forced to change its TRIPS legislation so that genetically modified seeds could be introduced into the country.[116]

The retreat from trade multilateralism

Although the increased number of countries that participated in the Uruguay and Doha rounds and the ever-expanding reach of trade agreements leave the impression that the world has never embraced multilateral trade negotiations with the same passion as it has over the past two decades, in fact a steady retreat away from trade multilateralism is underway. Increasingly major trading countries are embracing regional or bilateral trade deals (see below) and are only using multilateral WTO trade negotiations as a fallback position. The catalyst for this retreat from multilateralism was the rise of Japan as a major trading nation in the 1970s and the end of the Cold War in the late 1980s. Before Japan became a major trading nation Western Europe and the United States maintained a cosy and fairly cooperative attitude to global trade politics which was considerably enhanced by their common hostility to the Soviet Union. But Japan's rise upset the balance and introduced a much more competitive atmosphere into global trading relations. The United States became increasingly threatened by the impact of Japanese exports into the US economy and by the early 1980s was accusing Japan of pursuing a deliberate strategy of 'deindustrialising' it. This led to the imposition of US 'voluntary export restraints' and large punitive trade duties on Japan (under the infamous section 301 of the 1974 US Trade Act) despite their conflict with the rules of the GATT. During the 1980s the US also entered into a ferocious agricultural subsidy war with the European Economic Community and signed a free trade agreement with Canada in 1988. This led to a fair degree of reluctance by the Western Europeans (and many low-income countries) to participate in the Uruguay Round, but they ended up participating in it because they feared the United States would otherwise retreat into protectionism, thereby closing off the world's largest marketplace to them. But despite the launch of the Uruguay Round both Western Europe and the United States began working on trade agreements that were outside the reach of the Round. In 1987 the Single European Act came into force which sought to create free movement of capital, goods, services and people between the members of the European Union by 1992, and in the same year the United States began negotiating with Canada and Mexico over the North American Free Trade Agreement which came into force in 1994. Separate to these developments a host of new regional and bilateral trade agreements came to be negotiated around the world with the result that after covering about 10 per cent of global trade in 1990, regional and bilateral trade deals had come to cover about 30 per cent of global trade by 2003.[117] Underlying these developments was the United States view that whilst they had been prepared to make many trade concessions and wholeheartedly embrace multilateralism during the Cold War, partly in the interests of anti-Soviet solidarity, they were not prepared to be so flexible after the fall of the Berlin Wall; the US saw the post-Cold War environment as a case of 'every person for themselves'. None of these developments mean that the world's major trading countries are on the verge of leaving the WTO – far from it – but they do mean that these countries do not assign the same importance to WTO/GATT negotiations that they used to; increasingly they put their trade eggs in several other trade-deal baskets.

Regional trade deals

A key tenet of WTO membership is that no country is allowed to extend any trade benefit to any other WTO member, or group of members, that it does not extend to all members. This should, by rights, mean that regional and free trade deals should not be able to exist between WTO members, but they do and they are spreading like wildfire. As of June 2004 no less than 284 regional trade agreements and free trade agreements had been notified to the WTO – most of them bilateral deals. The mushrooming of these deals is the clearest expression there is of the global retreat from multilateral trade negotiations.

The tolerance of such arrangements goes back to the formation of the European Union in 1957 (then known as the European Economic Community, EEC) which created a customs union amongst its members. The EEC members threatened to leave the General Agreement on Tariffs and Trade unless a blind eye was turned to its customs union, and ever since both the GATT and the WTO have had to tolerate them. [118] In addition to the European Union, other major global regional free trade agreements around the world include: the North American Free Trade Agreement (between Canada, the US and Mexico, created in 1994), the ASEAN free trade agreement (signed between South-east Asian countries in 1992 and reinforced by the Bali Concord Two signed in 2003), the South American Mercosur free trade agreement (between Argentina, Brazil, Paraguay and Uruguay, signed in 1995), the Cotonou Agreement signed between the EU and seventy-seven African, Caribbean and Pacific countries (signed in 2000), the Central American Free Trade Agreement (between Guatemala, Honduras, El Salvador, Nicaragua and the US, signed in 2004), the South Asian Free Trade Agreement (between

India, Pakistan, Bhutan, Nepal, the Maldives, Sri Lanka and Bangladesh, signed in 2004) and the Pan Arab Free Trade Area agreement (signed in 2003). There is also the free trade agreement between the members of the Asia-Pacific Economic Cooperation group in which high-income countries have undertaken to cut all their tariffs by 2010 and low-income countries have undertaken to cut them all by 2020. In addition a plethora of bilateral free trade deals now exist such as the ones between the US and Singapore, Chile, Australia, Saudi Arabia, Israel, Jordan and Morocco; between Japan and Mexico; between China and Indonesia; between Singapore and Japan and Australia; and between Australia and New Zealand.

Discussions are currently taking place about the following future agreements:

- the proposed (controversial) Free Trade of the Americas Agreement which is meant to embrace all the countries of North and South America (except Cuba), due to be signed in 2005 (although negotiations are currently stalled);
- a proposed free trade agreement linking ASEAN with China, Japan, India, South Korea, Australia and New Zealand;
- various free trade deals between the European Union and Africa and the United States and Africa including a free trade agreement between the US and the Southern African Customs Union (which includes South Africa, Botswana, Namibia, Lesotho and Swaziland);
- proposed US free trade agreements with Thailand, Colombia, Peru, Ecuador, Bolivia, and Panama;
- a proposed free trade agreement between the US and various Middle Eastern countries;
- a linking of the South American Mercosur and Andean economic communities.

There seems to be no end to the regional and bilateral free trade deals that can be negotiated. In trade terms the world is increasingly tied

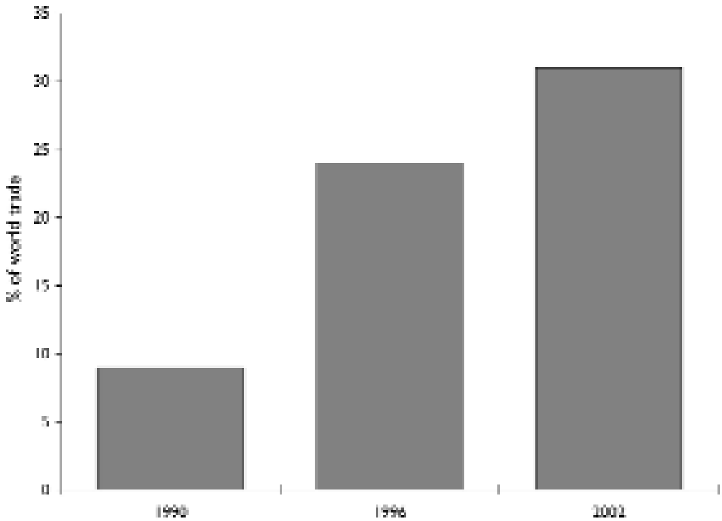

Figure 2.1 Percentage of world trade covered by regional trade agreements

Source: The World Bank and the *Economist*, 20 November 2004, p. 76.

together by WTO agreements augmented by a complicated mat of regional and bilateral trade deals.

Often the regional and free trade deals pit very unequal countries against each other. They are frequently used by high-income countries to gain influence they cannot gained through regular WTO agreements. The Free Trade of the Americas Agreement is widely viewed as a form of trade colonisation by the US of South America; the European Union Cotonou Agreement is sometimes seen as a form of European trade colonisation of Africa, the Caribbean and the Pacific; the trade arrangements that exist between the US and many African countries through the US African Growth and Opportunity Act is an attempt to wield US influence throughout Africa. One of the most conspicuous attempts to use bilateral trade deals to influence the trade politics of low-income countries was the threat by the US to review its trading relationship with Guatemala, Peru, Ecuador, Colombia and Costa Rica unless they left the G22 alliance of low-income countries that successfully stood up to high-income countries at the 2003 WTO meeting at Cancún. The move was successful although Thailand and the Philippines resisted similar pressure and stayed in the G22. Bilateral trade deals are also used to further issues that high-income countries cannot progress through regular WTO negotiations – the US, for instance, has included some of the Singapore issues in its bilateral free trade deals.

High- and low-income country global trade shares

At the end of the day the amount of clout different countries, or groups of countries, can exert in global trade negotiations often depends on the amount of trade they do and their shares of the global trade market. There is no doubt that high-income countries enjoy the lion's share of global trade and therefore most of the influence associated with it. In 2001 some 64 per cent of the world's exports came from developed countries and only 31 per cent came from developing countries (the balance of about 5 per cent came out of Eastern Europe).[119] Developed countries also dominate the flow of the world's imports – in 2001 they purchased 67 per cent of the world's imports while developing countries purchased 29 per cent.[120]

There are a number of major concerns about the low-income countries' share of the global trade market. One is that it is not increasing over time. In 1980 developing countries accounted for 28 per cent of world exports and in 1990 they accounted for 24 per cent; over the past two decades they have never had a global export share that has exceeded 32 per cent.[121] This may shortly change, however, with the rapidly increasing trade being done by countries like China, India, Brazil and Mexico. A second major concern is that several major low-income-country regions are experiencing smaller and smaller shares of the world export market. Africa is being hit the hardest – between 1980 and 2000 its share of global exports fell from 4.62 per cent to 1.84

per cent.[122] It is not alone: West Asia's share of global exports fell from 9.97 per cent to 3.97 per cent over the same period while Oceania's share fell from 0.11 per cent to 0.06 per cent.[123] As these regions have experienced shrinking shares of the global export market, other low-income countries have enjoyed increased shares. The share of global exports coming out of Southern and Eastern Asia shot up from 7.97 per cent in 1980 to 19.97 per cent in 2000[124] – this is great for the countries in that part of Asia but other low-income countries are missing out on increased exports, and export income is becoming increasingly concentrated amongst a select few low-income countries.

There is some hope for low-income countries on the global trade front, however. During the 1990s exports from developing countries grew more quickly than those from developed countries (9.1 per cent versus 5.5 per cent), although during the 1980s they had grown less quickly (3.2 per cent versus 7.5 per cent).[125] This means that when the 1980s performance is combined with the 1990s performance developing countries recorded roughly the same growth as developed countries over both decades. Another ray of hope for low-income countries comes from the fact that they are increasingly exporting a larger share of the world's manufactured exports. In 1980 only 10.5 per cent of the world's manufactured exports came from developing countries but by 2000 29.5 per cent did.[126] This increase does not mean, however, that a lot more manufactured export income is flowing to low-income countries. As discussed in Chapter 4, much evidence suggests that most manufactured value adding still takes place in high-income countries with only the low-value-added, labour-intensive parts being performed in low-income countries.

Different trade patterns of high- and low-income countries

The global trade of high- and low-income countries differs in more than just scale and share, however – it also differs in several qualitative ways. Another defining difference between them is the extent to which high- and low-income countries trade with neighbouring, similar high- or low-income countries. High-income countries do this a lot whilst low-income countries tend not to trade to a significant extent with other nearby low-income countries. In 2001 the total exports of the European Union that went to other EU countries equalled 61 per cent of all its exports that year; similarly 55 per cent of all the exports leaving the three countries that belong to the North American Free Trade Agreement (Canada, the US and Mexico) went to one of the other two members.[127] In contrast 21 per cent of all the exports from the countries that make up the Mercosur free trade area (Argentina, Brazil, Paraguay and Uruguay) went to one of the other three members, 15 per cent of the exports of the Central American Common Market stayed within the group, 22 per cent of the exports of the countries that make up the Association of South-East Asian nations stayed within its grouping, and just 14 per cent of all the exports from the countries that make up the West African Economic and Monetary Union stayed within that group.[128]

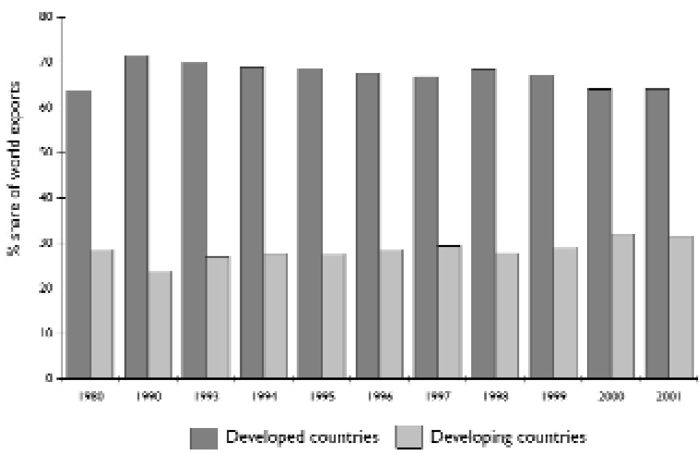

Figure 2.2 Developed and developing countries' shares of world exports

Source: *UNCTAD Handbook of Statistics 2002*, United Nations, New York and Geneva, 2002, p. 14.

Basically there is nothing particularly gracious or dignified about global trade politics. Everyone is out to get as much as they can by whatever means they can. Global trade negotiations are far from civil and involve a lot of brinkmanship and use of brute force. Global trade is not conducted on a level playing field, although in recent years low-income countries have had some success in correcting the tilt against them (but structurally the global trade market remains well and truly balanced against them). There is a long way to go before the global trade market can be called fair, and at the moment there appears to be no great momentum in that direction.

Notes

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2 Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations* (fifth edn), St Martin's Press, New York, 1997, p. 50.
3 Fatoumata Jawara and Aileen Kwa, *Behind the Scenes at the WTO: The Real World of International Trade Negotiations*, Zed Books, London, 2003, p. 81.
4 Ibid., p. 162.
5 Robert Skidelsky, *John Maynard Keynes 1883–1946: Economist, Philosopher, Statesman*, Pan Books, London, 2004, p. 672.
6 Ibid., p. 165.
7 Richard Peet (ed.), *Unholy Trinity: The IMF, World Bank and WTO*, Zed Books, London, 2003, p. 149.
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9 Ibid.
10 Ibid.
11 Peet, *Unholy Trinity*, p. 149.
12 Spero and Hart, *The Politics of International Economic Relations*, p. 53.
13 Ibid.
14 Kenwood and Lougheed, *The Growth of the International Economy 1820–1990,* p. 289.
15 Spero and Hart, *The Politics of International Economic Relations*, p. 54.
16 Ibid., p. 55.

1

The WTO and GATT: A Principled History

While the World Trade Organization in current existence provides its membership with forums for three interrelated functions—negotiation, illumination, and litigation—it is probably best known for the first of these. This chapter provides a brief overview of the negotiating forum of the General Agreement on Tariffs and Trade and its WTO successor, as well as how each has been used by the world's major trading nations since 1947.

Since the ultimate focus of this book is on developing countries and dispute settlement, it may appear strange to start with a topic that has little obvious relation to either. This chapter describes the relative success of the negotiating forum of the GATT—an agreement to which developing countries largely did not have a proactive contribution. A careful analysis of the origins of the GATT, as well as some of its later history, offers a tremendous number of lessons for developing countries and for the settlement of disputes. The underlying political and economic forces that create the incentives that shape trade relations between sovereign nations—be the countries developed or developing—remain relatively consistent over time. Thus the evidence from later chapters will substantiate that there is much to learn from the relative successes of the GATT and its negotiating history. These successes are particularly important to understand and appreciate given the extremely negative and pessimistic view that developing countries have of the current WTO bargain, which is described in chapter 2.

In the next section, I provide a brief introduction to the original GATT that was negotiated to conclusion in 1947, as well as the subsequent trade liberalization negotiations that took place over the next forty-five years. The third section presents the principles on which the GATT and the WTO are built—reciprocity, most-favored-nation treatment, and national treatment—and their practical relevance for shaping the outcomes of the negotiations. The final section describes some of the emerging evidence from more formal scholarship that finds that the GATT and the WTO (GATT/WTO), as well as these foundational principles, have an impact on government policies and subsequently on the trade flows and economic activity that such policies affect.

A Brief History of GATT Negotiations

The current WTO agreements are the legacy of commitments that countries have voluntarily negotiated with each other, on a repeat basis, in the decades since 1947. To understand the causes of the present patterns of import protection across WTO member countries as well as across products and industries within those countries, it is important to turn to the past.

The 1930s and 1940s era of the Great Depression and World War II provide important reminders of globalization's last dark episode of protectionism. The U.S. imposition of the Smoot-Hawley tariffs and the international retaliatory response in the 1930s led to the virtual halting of international commerce. Table 1-1 illustrates the pattern of the new trade barriers that were implemented by the United States and a number of other European countries during the Great Depression. What is clear is that the level of tariffs during the Depression was much higher than what most developed economies impose today.

At the conclusion of World War II, twenty-three countries, led primarily by the United States, Canada, and the United Kingdom, negotiated the General Agreement on Tariffs and Trade.[1] The goal was to create an agreement that would ensure postwar stability and avoid a repeat of the mistakes of the recent past, including the Smoot-Hawley tariffs and retaliatory responses, which had been a contributor to the devastating economic climate that culminated in the death and destruction of the Second World War. The 1947 GATT created a new basic template of rules and exceptions to regulate international trade between members (referred to as *contracting parties*) and locked in initial tariff

1. The twenty-three countries engaging in the Geneva negotiations that led to the signing of the GATT in 1947 were Australia, Belgium, Brazil, Burma (Myanmar), Canada, Ceylon (Sri Lanka), Chile, China, Cuba, Czechoslovakia (Czech Republic and Slovakia), France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, South Africa, Southern Rhodesia (Zimbabwe), Syria, United Kingdom, and United States. For a discussion of the negotiating history leading up to the GATT, see Irwin, Mavroidis, and Sykes (2008).

Table 1-1. *Average Tariff Levels for the United States and Major European Countries*

Country	*1913*	*1925*	*1931*	*1952*	*2007*[a]
Belgium	6	7	17	n.a.	5.2
France	14	9	38	19	5.2
Germany	12	15	40	16	5.2
Italy	17	16	48	24	5.2
United Kingdom	n.a.	4	17	17	5.2
United States	32	26	35	9	3.5

Source: Data for 1913, 1925, 1931, and 1952 are from Irwin (2002, table 5.1, p. 153). Data for 2007 are from WTO (2008c).

n.a. = Not available.

a. Tariff levels for each European Community member country represent the EC-wide import tariff rate.

reductions that these countries committed to establish. Even as early as 1952, the tariff cuts had reduced average tariffs substantially, as shown in table 1-1, for a number of these countries.

Over the next forty-seven years, more countries signed on to the GATT, and further trade liberalization negotiations ensued.[2] As table 1-2 documents, between 1947 and 1994, the GATT contracting parties began and concluded eight separate negotiating rounds of voluntary trade liberalization. The last of these completed rounds was the Uruguay Round, which ended the GATT era in 1994 by ushering in the World Trade Organization. By 1994, the GATT membership had simultaneously expanded from an initial 23 contracting parties to 128 participating countries. With a number of new members acceding to the WTO since its 1995 inception, more than 150 countries have signed the agreement.

The Negotiating Rounds and Negotiating Approaches

The first five rounds of GATT negotiations covering the initial 1947–61 period were typically dominated by major exporting countries, or those with a "principal supplying interest" in a particular product, getting together and negotiating reciprocal market access improvements.[3] The initial negotiators under the

2. Barton and others (2006) provide an economic, legal, and political assessment of the trade regime from the GATT through to the WTO.

3. For a discussion, see Dam (1970, chapter 5). Hoekman and Kostecki (2009, chapter 4) discuss not only the negotiating history but also the economic outcomes of different negotiating approaches of principal suppliers versus tariff formulas and exceptions. Ludema and Mayda (2009) provide an economic theory that rationalizes participation by the largest exporters in negotiations, and thus supports the principal supplier rule as a feature of the negotiations. Their theory justifies the principal supplier rule as a means to overcome the otherwise nontrivial concern of externalities that can lead to the failure of multilateral negotiations attributed to the free rider problem. Then,

Table 1-2. *GATT and WTO Negotiating Rounds of Multilateral Trade Liberalization*

Year	*Name (location)*	*Subjects covered*	*Number of countries*
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–61	Dillon Round (Geneva)	Tariffs	26
1964–67	Kennedy Round (Geneva)	Tariffs and antidumping measures	62
1973–79	Tokyo Round (Geneva)	Tariffs, nontariff measures, "framework" agreements	102
1986–94	Uruguay Round (Geneva)	Tariffs, nontariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, and so on	128
2001–present	Doha Round	To be determined	To be determined

Source: WTO website, "The GATT Years: From Havana to Marrakesh" (www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm).

GATT, especially those with a principal supplying interest, were developed economies. They focused their negotiation efforts on reducing import barriers in other countries that were of primary interest to their own exporters, and they used the political trade-off of expanded market access abroad for exporting industries against increased market access granted at home to foreign industries and thus the losses to industries competing against these imports.

Since the trade barriers targeted for elimination were typically those in the import markets of other developed countries, the primary result was that developed countries were asked to reduce their tariffs. Put differently, since most developing countries were neither principal suppliers nor major importing markets, little was asked of them in terms of their own trade liberalization, and little of what was of direct export interest to developing countries was liberalized by others. Such an outcome is consistent with the pattern of import tariff protection that persists today, which is explored in more depth in the next chapter, a remnant of the form of the negotiations begun in the 1940s.

using data on the United States, they also provide evidence for how the principal supplier rule affects the imposition of tariffs, finding that a higher concentration of exporters in a sector reduces free riding and thus results in a lower tariff.

Starting with the Kennedy Round of negotiations in 1964 through the Tokyo Round in the 1970s, countries participating in the trade negotiations used formulaic approaches to reduce further the remaining trade barriers across the board. Certain tariff-cutting formulas can be preferable to reciprocal negotiations between principal suppliers, in that they can serve to reduce average tariff levels as well as their *dispersion.* The dispersion of tariffs within a country, and even for products within an industry, is related to the difference between the average tariff and the country's highest tariffs, or the phenomenon of "tariff peaks," which is discussed in more detail in chapter 2.

Although formulas can be preferable to simple negotiations between principal suppliers if the formulas are applied rigorously, inevitably the formulaic approaches applied during the Kennedy and Tokyo Rounds did not turn out to be sufficiently "pure" in practice to fully achieve this effect. In the rounds in which formulas were applied, negotiating countries sought and were granted exemptions for "sensitive products" that they could remove from the list of goods whose import tariffs would be subject to the formula. In this manner countries typically avoided having to reduce the highest tariffs in products that the formulaic approach was trying to attack in the first place. The result is a persistent pattern of protection across countries and industries that likely looks quite similar to the reciprocity-based, bid-offer approach between principal suppliers of different products.

Important Commercial Sector Exemptions to the GATT

In addition to the general problem of certain products effectively being excluded from multilateral trade liberalization rounds because of the principal supplying interest and formula-exemption approaches to the GATT negotiations, the contracting parties deepened the severity of the problem in certain sectors by essentially taking two industries off the negotiating table—agriculture and apparel and textiles.

First, most agricultural trade was exempted from GATT disciplines beginning in the 1950s. The United States initiated the trend by requesting a GATT waiver to that effect; the emerging European Economic Community subsequently supported this decision as it undertook substantial government intervention in agricultural markets through its Common Agricultural Policy (CAP). This lack of discipline concerning trade in agricultural products would ultimately result in a complicated web of domestic policies throughout the sector—excesses in import restrictions as well as substantial domestic support (subsidies) programs, which can have the effect of choking off imports and making suppliers artificially competitive in third country (export) markets.

Second, beginning with Japan's accession to the GATT in 1955, special trading rules also were introduced to deal with potentially disruptive imports in clothing and textile products.[4] What began as the Short-Term Arrangement covering cotton textiles (1961) turned into the Long-Term Arrangement (1962–73) and subsequently the Multifibre Arrangement (MFA) (1974–94). These agreements managed global textiles and apparel trade through a complex system of quantitative restrictions and voluntary export restraints. The products covered by these agreements thus fell outside of the GATT system of rules, disciplines, and ultimately enforcement.[5]

As discussed in chapter 2, the creation of the WTO in 1995 has provided a framework to resolve these problems. Nevertheless, these particular two sectors are of fundamental interest to exporters in many developing countries. Thus the effects of the negotiating legacy of such sectors do contribute to complaints being made by developing countries about the WTO today, especially because countries continue to impose high import tariffs on these products.

The Fundamental Principles of the GATT and the WTO

The General Agreement on Tariffs and Trade established the forum for negotiations on cutting tariffs that subsequently would take place over the following decades through multilateral trade rounds. In addition, the initial negotiations resulted in an agreement that established a set of basic rules and disciplines that participating countries were to follow, as well as a forum for dispute resolution if countries deviated from them. Perhaps the most important and enduring of these basic rules embodied in the GATT 1947 are the fundamental principle of *reciprocity* and two nondiscrimination principles—*most-favored-nation treatment* and *national treatment.*

Reciprocity

The GATT fundamental principle of reciprocity enters into the agreement in a number of different ways, both formally and informally.[6]

4. Japan's entry into the GATT in 1955 as a major developing country exporter of clothing and textile products, and the associated fear of disruption of economic activity due to the integration of this country into the GATT system, has a number of marked similarities with China's accession to the WTO in 2001. See the discussion in Bown and McCulloch (2007a).

5. For a more complete discussion, see Hoekman and Kostecki (2009, chapter 6).

6. Unlike the principles of nondiscrimination (most-favored-nation treatment and national treatment) described in the next two subsections, there is no article of the GATT 1947 that clearly identifies reciprocity as a foundational principle. Nevertheless, the articles in the GATT 1947 that govern how countries are to renegotiate concessions—in particular Articles XXVIII and XIX—if

First, as discussed above in the section about the process of GATT rounds of multilateral trade negotiations, these negotiations were typically undertaken on a reciprocal basis—frequently between countries with a principal supplying export interest in the other's import market. While this particular approach to negotiations was successful, it was more of a rule of thumb in the negotiations phase. There is nothing in the GATT texts that requires countries to reciprocally negotiate market access liberalization.

Second, once a contracting party had committed to opening up access to its market, reciprocity did become a formal rule for renegotiations if that country subsequently wanted to back off from its commitment. There are two broad ways that countries have backed off prior commitments, and the GATT/WTO response to both has typically been based on reciprocity.

The first instance is when a country seeks to follow GATT/WTO legal procedures when raising its import tariffs to levels higher than the "bound" commitments (or limits) it had promised to offer to the rest of the membership during an earlier negotiating round. Adversely affected trading partners are then permitted to negotiate a reciprocal market access change in another area of interest. Although it is possible that this might occur through additional trade liberalization in another sector of interest to the affected exporter, typically it is implemented through a new "market closing," which, while retaliatory, is limited by this reciprocity principle so as to rebalance the deal.

The second instance is when a country backs off commitments to opening market access in a way that is not "GATT/WTO legal," whereby adversely affected trading partners use the dispute settlement process to obtain a legal ruling that allows them to rebalance market access obligations. Case law that has emerged under the formal trade dispute settlement procedures adjudicated at the WTO has also resulted in use of the reciprocity rule for instances in which compensation needs to be allocated to adversely affected exporters after legal breaches of the GATT/WTO bargain.[7] This second point indicates that reciprocity is thus an extremely important principle when it comes to the issue of disputes and is therefore a topic that is dealt with in greater detail in subsequent chapters.

Most-Favored-Nation Treatment

The second fundamental principle of the GATT is the most-favored-nation (MFN) treatment, that is, nondiscrimination by importers across different

one country seeks to amend the initial bargain, do contain explicit language about reciprocity that therefore arguably feeds back to how initial negotiations are conducted. See the economic modeling framework in Bagwell and Staiger (1999, 2002) and also the discussions in Bown (2002a, 2002b).

7. See, for example, the discussion in Bown and Ruta (forthcoming) as well as a number of other chapters in Bown and Pauwelyn (forthcoming).

foreign export sources. MFN in the GATT is a rule for both negotiations and renegotiations.[8] In a negotiating round, when one GATT contracting party offers to lower its tariff to increase the market access available to foreign exporters in another GATT country, that same lower tariff and terms of market access must be then granted to all other GATT countries on a nondiscriminatory, MFN basis. This is clearly one of the most important reasons for desired membership in the agreement. Even if a country did not seek to utilize the GATT for its own tariff liberalization negotiations or as an external commitment device to facilitate internal reform (for reasons described in the next section), joining the GATT was useful because it provided some guarantee that the country's exporters would receive the "best" treatment made available to any other country in the agreement. This helps to explain why developing countries would want to join the GATT/WTO and establishes that there was some theoretical benefit to them of doing so.

Nevertheless, while MFN is an important principle in all aspects of the GATT and the WTO—during formal trade liberalization negotiations as well as renegotiations, for example, that might occur during the settlement of a dispute—this treatment becomes increasingly diluted in the presence of GATT/WTO-permitted exceptions to MFN. In particular, the GATT/WTO does permit members to sign preferential trade agreements (PTAs) between one another and thus offer lower-than-MFN tariff rates to preferred partners provided that this covers "substantially all trade." Furthermore, and as chapter 2 describes in more detail, the GATT/WTO also encourages members to offer lower-than-MFN tariff rates to developing country exporters through the Generalized System of Preferences (GSP).

National Treatment

The second fundamental principle of nondiscrimination embodied in the GATT/WTO is the rule of national treatment. The basic idea is simple—once a foreign-produced good has paid the price of entry into an import market (an import tariff), it has to be treated just like a nationally produced good.[9] The good cannot then be subject to additional taxes or regulatory barriers that would otherwise differentiate it from a domestically produced good, once the import tariff has been paid. The national treatment rule is there to prevent policymakers from eliminating the market access promised by tariff cuts through subsequent recourse to other domestic policies, such as taxes or subsidies.

8. The principle of MFN treatment is found in Article I of the GATT 1947. For a legal and economic discussion of the MFN rule, see Horn and Mavroidis (2001).

9. The principle of national treatment is found in Article III of the GATT 1947. Horn (2006) provides a recent theoretical treatment of the national treatment principle on which the GATT/WTO are modeled as an incomplete contract.

Evidence that the coverage of the national treatment principle is broad and powerful is that it is the core issue in a large number of the formal WTO disputes, many of which are examined in later chapters. In fact, in almost any dispute in which a WTO member is alleged to have differentiated unfairly between domestic and foreign-produced goods—whether it be because of a discriminatory tax code, an explicit or implicit subsidy, or a regulatory barrier motivated by concerns over environmental or consumer safety—the heart of the issue is the applicability of and the potential limits to the national treatment principle.

The Theories and Empirical Evidence that the GATT and the WTO Are Relevant

For years, even serious scholars had difficulty reconciling the apparent successes of the GATT/WTO—and what appeared to be relatively mercantilist approaches taken by negotiators under its auspices—with basic economic theory. Nevertheless, the last decade in particular has seen much research progress made in understanding the relevance of the GATT/WTO as an important and necessary component of international economic relations.

In this section I make a brief detour to highlight some of the insights provided by this increasingly sophisticated political and economic scholarship on the GATT and the WTO. In particular, I describe a substantial literature in economic theory that ascribes two potential complementary benefits to a trade agreement such as the GATT or the WTO. I refer to these as the *market access theory* and the *commitment theory.*

The market access theory is based on the well-established fact that large importing countries, whose tariff policies can affect world market prices because of the country's size, require an external motivation to agree to reduce and bind their import tariffs. The GATT and the WTO, and the principle of reciprocity in particular, provide this inducement by allowing any one country's change in trade policy—either a lowering of trade barriers under a negotiating round or a raising of trade barriers subsequently bound by the agreement—to be accompanied by an equivalent, reciprocal change in market access by trading partners.[10] The theory suggests that without the reciprocal inducement during negotiations of increased access to foreign markets, a large

10. More typically, the market access theory is referred to in the academic economic literature as the *terms of trade theory* and dates to the seminal work of Johnson (1953–54). A more recent treatment that now dominates the scholarly literature on international trade agreements is based on Bagwell and Staiger (1999, 2002). In particular, Bagwell and Staiger (2002, chapter 11) documented how the terms of trade theory and the market access theory are equivalent, largely addressing one issue of critics who previously found the terms of trade theory unconvincing because trade negotiators discuss import volumes (market access) rather than world prices (the terms of trade).

importing country would not unilaterally offer its own market access to foreign exporters through tariff liberalization. Furthermore, without the threat that this foreign market access will be taken away if one country deviates from the agreement by imposing new trade barriers, market access openings could not be sustained through renegotiations either.

Supporting the dominant market access theory of why the world trading system needs an institution like the GATT/WTO is increasing empirical evidence. A first study by Broda, Limão, and Weinstein uses new empirical techniques and data to provide two pieces of evidence broadly consistent with the theory.[11] They estimated disaggregated foreign export supply elasticities, which are one component in answering the important economic question of whether the importing country is "large" in its ability to affect world prices. They found that countries that are not WTO members systematically set higher tariffs on goods that are supplied inelastically. Thus WTO nonmembers—countries that have not agreed to limit their policies toward imports—tend to impose higher import tariffs on goods for which they are large and need a trade agreement inducement to get these tariffs lowered. Second, for the United States, the authors found that trade barriers are significantly higher on products not covered by the WTO agreement for which the United States has more market power.

A second recent study by Bagwell and Staiger focuses on a set of countries newly acceding to the WTO between 1995 and 2005.[12] They examined whether the motive of gaining access to markets affects these countries' tariff cut commitments and found evidence consistent with the importance of this effect. Specifically, the farther the tariff to which a country negotiates is below its original (pre-WTO) tariff level, the larger is its original, pre-WTO import volume. This result is also consistent with negotiating behavior predicted by the market access theory.

These studies seek to explain why the world needs the GATT/WTO, because the fundamental problems that these agreements are designed to tackle would not be addressed if market forces were left unfettered and government policies were not coordinated internationally. These pieces of evidence indicate that the GATT/WTO has had important real effects on countries' trade policies and the resulting trade flows.[13] The evidence is consistent with what economists predict for government behavior, especially for large, developed countries. The GATT/WTO system has created incentives for such countries to restrict their import tariff barriers compared to the tariffs they would levy in the absence of a

11. Broda, Limão, and Weinstein (2008).

12. Bagwell and Staiger (2006).

13. In chapter 2 a number of other studies are described that present related results that the GATT/WTO has affected country-level trade flows, including Subramanian and Wei (2007); Goldstein, Rivers, and Tomz (2007); Tomz, Goldstein, and Rivers (2007).

GATT/WTO-like agreement. Simply compare current policies with what these large developed economies were doing in the 1930s (see again table 1-1): unilaterally imposing mutually destructive import barriers toward one another because they could not coordinate reciprocal market access opening. This underscores one fundamental benefit that the GATT/WTO provides to the world trading system.

According to the second major theory of trade agreements, the commitment theory, even for countries that are not large (in the sense of market access described above), the GATT/WTO may help struggling governments take on efficiency-enhancing, national welfare–improving economic reforms, including trade liberalization.[14] This potential role for the GATT/WTO comes into play when a government faces entrenched political interest groups demanding special policies that make it difficult for the government to act unilaterally.[15] In this case, the GATT/WTO might also help the government convince its domestic sectors that it is serious about reform and a long-term policy of more liberal trade.

Although there has been little empirical research formally testing the practical relevance of the commitment theory, one particular element should be noted with regard to the issue of GATT/WTO enforcement. As highlighted repeatedly throughout this book, the GATT/WTO institution does virtually no enforcement on its own. Rather, the GATT/WTO is a set of self-enforcing agreements: member countries enforce trading partners' commitments embodied in the agreements by challenging each other's missteps through formal dispute settlement. Thus, as described in substantial detail in later chapters, for a country to take advantage of the potential commitment-device role that the GATT/WTO might offer to government policymakers, some other trading partner must be willing to enforce the commitments that a country takes on. If there is no external enforcement—and this is especially relevant to the case of the poorest WTO member countries whose commitments are almost never enforced through dispute settlement—the WTO essentially provides the country seeking the external commitment with nothing.

14. See the work of Tumlir (1985). More recent theoretical treatments of focus in the academic literature include the work of Maggi and Rodríguez-Clare (1998, 2007) as well as Staiger and Tabellini (1987).

15. A related problem discussed by Staiger and Tabellini (1987) is the concern over time consistency. Although a government may have an incentive to announce trade reforms, it may find it difficult to follow through with them without an external commitment device. Because firms and workers recognize that the government will eventually face this time inconsistency problem (in the absence of external enforcement via a trade agreement), they undertake too little efficiency-enhancing change—whether it be investment in or adjustment to a new and growing sector.

Conclusion

This brief introduction to the General Agreement on Tariffs and Trade and the World Trade Organization identifies a number of important lessons for the remainder of this book. First, the results from the history of the GATT and the WTO negotiations—tariff barriers in developed economies that are massively lower today when compared with those during the Great Depression era of the 1930s—is an unprecedented multilateral outcome for international economic relations. Second, the underlying principle of reciprocity that served to influence these early negotiations turns out to have been an important international force allowing governments to coordinate and simultaneously lower trade barriers. Furthermore, this reciprocal balance of trade obligations across countries is what has allowed them to keep the trade barriers low toward one another, for the most part, over the next 60 years.

Although ultimately a more detailed analysis of this latter point is of interest—how WTO members use the dispute settlement process to self-enforce the agreement and maintain this reciprocal balance in the face of relatively challenging political and economic circumstances—first, in the next chapter, the history of the GATT/WTO negotiations are retold from the perspective of developing countries.

WORLD TRADE ORGANIZATION

Understanding the WTO

ABBREVIATIONS

Some of the abbreviations and acronyms used in the WTO:

ACP	African, Caribbean and Pacific Group (Lomé Convention and Cotonu Agreement)
AD, A-D	Anti-dumping measures
AFTA	ASEAN Free Trade Area
AMS	Aggregate measurement of support (agriculture)
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
CBD	Convention on Biological Diversity
CCC	(former) Customs Co-operation Council (now WCO)
CER	[Australia New Zealand] Closer Economic Relations [Trade Agreement] (also ANCERTA)
COMESA	Common Market for Eastern and Southern Africa
CTD	Committee on Trade and Development
CTE	Committee on Trade and Environment
CVD	Countervailing duty (subsidies)
DDA	Doha Development Agenda
DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
EFTA	European Free Trade Association
EU	European Union
FAO	Food and Agriculture Organization
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
HS	Harmonized Commodity Description and Coding System
ICITO	Interim Commission for the International Trade Organization
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Trade Centre
ITO	International Trade Organization
MEA	Multilateral environmental agreement
MERCOSUR	Southern Common Market
MFA	Multifibre Arrangement (replaced by ATC)
MFN	Most-favoured-nation
MTN	Multilateral trade negotiations
NAFTA	North American Free Trade Agreement
PSE	Producer subsidy equivalent (agriculture)
PSI	Pre-shipment inspection
S&D, SDT	Special and differential treatment (for developing countries)
SAARC	South Asian Association for Regional Cooperation
SDR	Special Drawing Rights (IMF)
SELA	Latin American Economic System
SPS	Sanitary and phytosanitary measures
TBT	Technical barriers to trade
TMB	Textiles Monitoring Body
TNC	Trade Negotiations Committee
TPRB	Trade Policy Review Body
TPRM	Trade Policy Review Mechanism
TRIMs	Trade-related investment measures
TRIPS	Trade-related aspects of intellectual property rights
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Programme
UNEP	UN Environment Programme
UPOV	International Union for the Protection of New Varieties of Plants
UR	Uruguay Round
VER	Voluntary export restraint
VRA	Voluntary restraint agreement
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

For a comprehensive list of abbreviations and glossary of terms used in international trade, see, for example:
Walter Goode, Dictionary of Trade Policy Terms, 5th edition, WTO/Cambridge University Press, 2007.
This and many other publications on the WTO and trade are available from:
WTO Publications, World Trade Organization, Centre William Rappard, Rue de Lausanne 154, CH–1211 Geneva, Switzerland.
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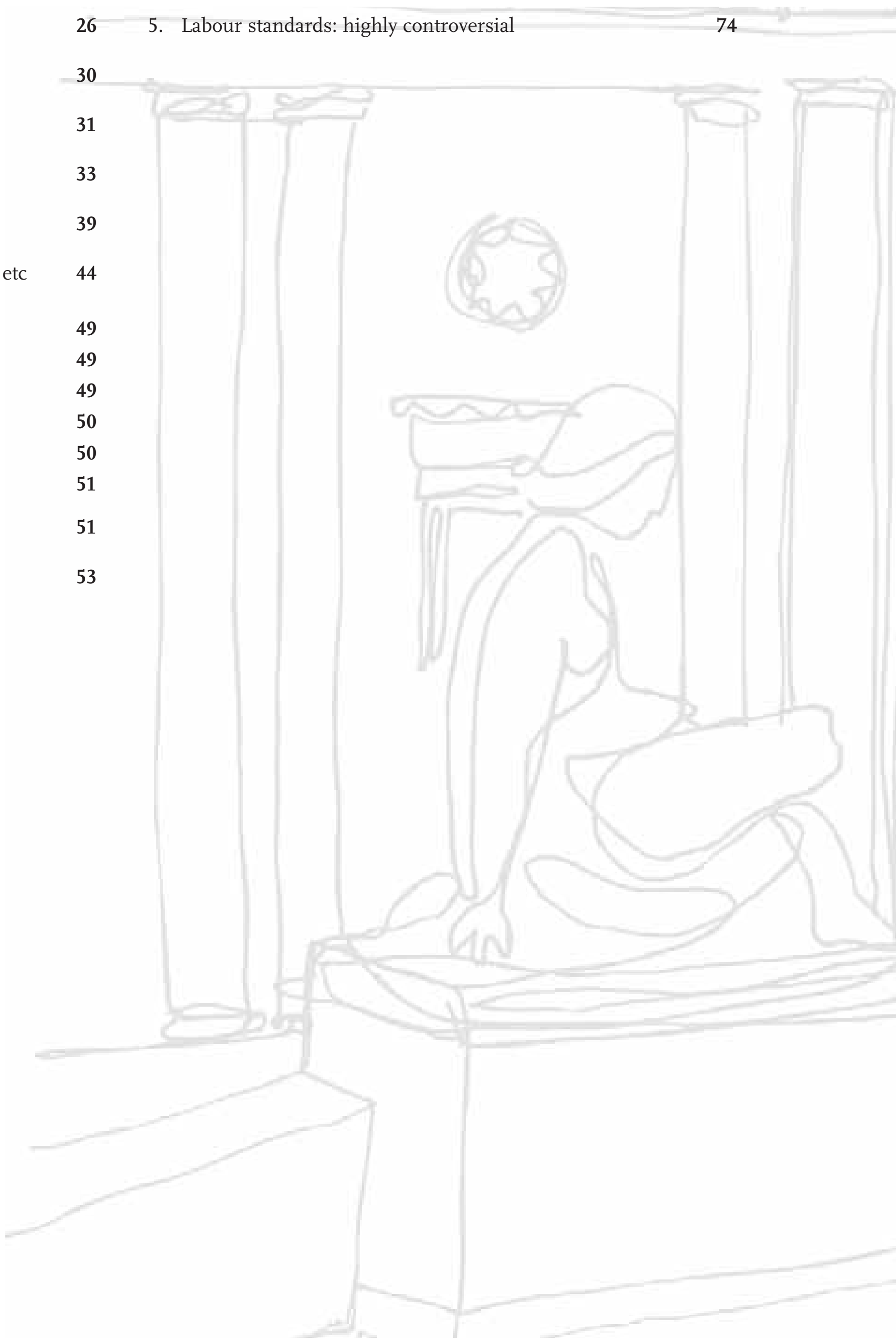

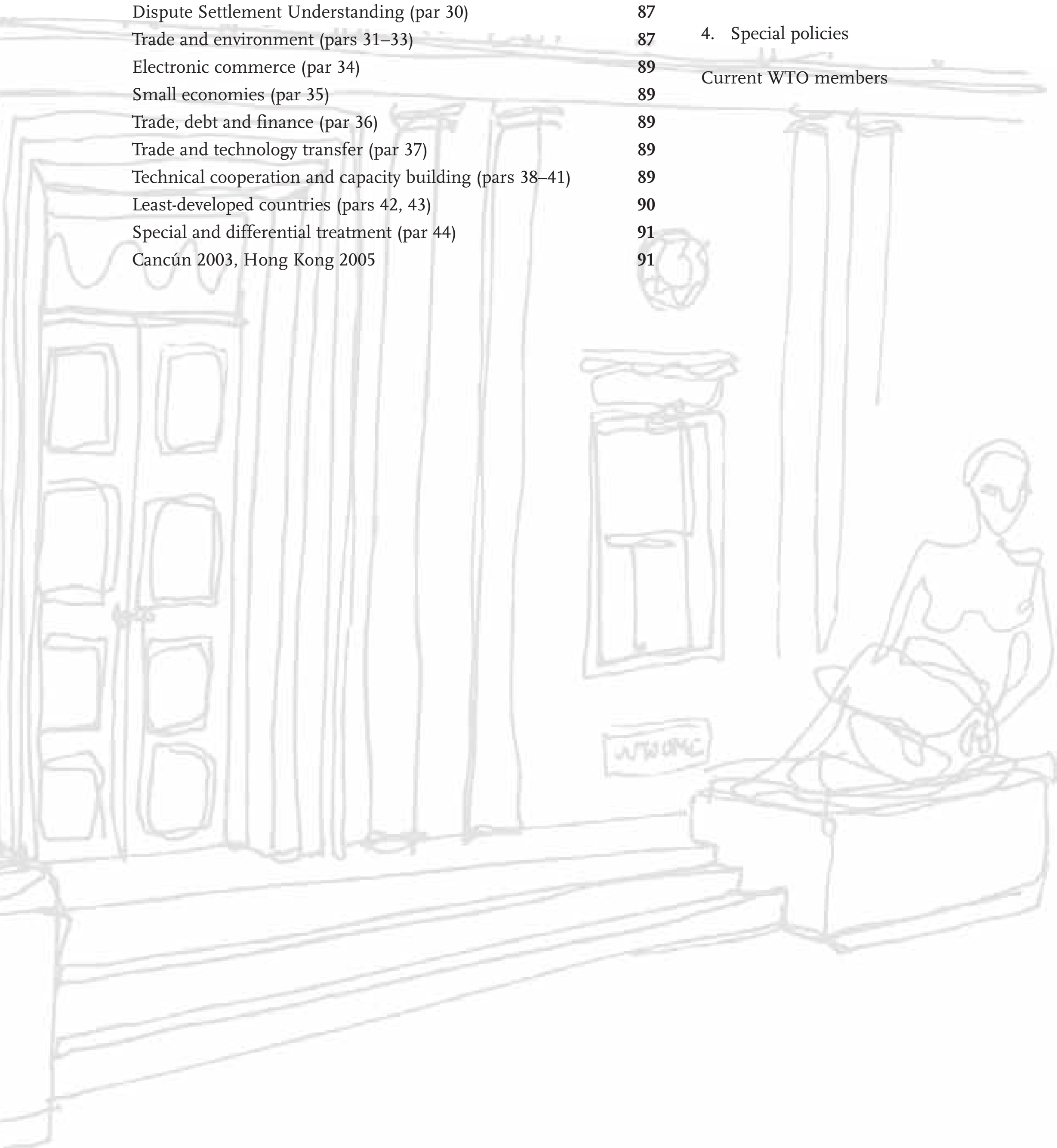

The first step is to talk. Essentially, the WTO is a place where member governments go, to try to sort out the trade problems they face with each other.

At its heart are WTO agreements, negotiated and signed by the bulk of the world's trading nations.

But the WTO is not just about liberalizing trade, and in some circumstances its rules support maintaining trade barriers — for example to protect consumers, prevent the spread of disease or protect the environment.

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Chapter 1

BASICS

The WTO was born out of negotiations; everything the WTO does is the result of negotiations

1. What is the World Trade Organization?

Simply put: the World Trade Organization (WTO) deals with the rules of trade between nations at a global or near-global level. But there is more to it than that.

Is it a bird, is it a plane?

There are a number of ways of looking at the WTO. It's an organization for liberalizing trade. It's a forum for governments to negotiate trade agreements. It's a place for them to settle trade disputes. It operates a system of trade rules. (But it's not Superman, just in case anyone thought it could solve — or cause — all the world's problems!)

Above all, it's a negotiating forum … Essentially, the WTO is a place where member governments go, to try to sort out the trade problems they face with each other. The first step is to talk. The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO's current work comes from the 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the "Doha Development Agenda" launched in 2001.

Where countries have faced trade barriers and wanted them lowered, the negotiations have helped to liberalize trade. But the WTO is not just about liberalizing trade, and in some circumstances its rules support maintaining trade barriers — for example to protect consumers or prevent the spread of disease.

It's a set of rules … At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

… OR IS IT A TABLE?

Participants in a recent radio discussion on the WTO were full of ideas. The WTO should do this, the WTO should do that, they said.

One of them finally interjected: "Wait a minute. The WTO is a table. People sit round the table and negotiate. What do you expect the table to do?"

'Multilateral' trading system ...

... i.e. the system operated by the WTO. Most nations — including almost all the main trading nations — are members of the system. But some are not, so "multilateral" is used to describe the system instead of "global" or "world".

In WTO affairs, "multilateral" also contrasts with actions taken regionally or by other smaller groups of countries. (This is different from the word's use in other areas of international relations where, for example, a "multilateral" security arrangement can be regional.)

The system's overriding purpose is to help trade flow as freely as possible — so long as there are no undesirable side-effects — because this is important for economic development and well-being. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be "transparent" and predictable.

And it helps to settle disputes ... This is a third important side to the WTO's work. Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

Born in 1995, but not so young

The WTO began life on 1 January 1995, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system. (The second WTO ministerial meeting, held in Geneva in May 1998, included a celebration of the 50th anniversary of the system.)

It did not take long for the General Agreement to give birth to an unofficial, de facto international organization, also known informally as GATT. Over the years GATT evolved through several rounds of negotiations.

The last and largest GATT round, was the Uruguay Round which lasted from 1986 to 1994 and led to the WTO's creation. Whereas GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property).

2. Principles of the trading system

The principles

The trading system should be ...

- without discrimination — a country should not discriminate between its trading partners (giving them equally "most-favoured-nation" or MFN status); and it should not discriminate between its own and foreign products, services or nationals (giving them "national treatment");
- freer — barriers coming down through negotiation;
- predictable — foreign companies, investors and governments should be confident that trade barriers (including tariffs and non-tariff barriers) should not be raised arbitrarily; tariff rates and market-opening commitments are "bound"in the WTO;
- more competitive — discouraging "unfair" practices such as export subsidies and dumping products at below cost to gain market share;
- more beneficial for less developed countries — giving them more time to adjust, greater flexibility, and special privileges.

The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more. But a number of simple, fundamental principles run throughout all of these documents. These principles are the foundation of the multilateral trading system.

A closer look at these principles:

Trade without discrimination

1. Most-favoured-nation (MFN): treating other people equally Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

This principle is known as most-favoured-nation (MFN) treatment (*see box*). It is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) (Article 2) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 4), although in each agreement the principle is handled slightly differently. Together, those three agreements cover all three main areas of trade handled by the WTO.

Some exceptions are allowed. For example, countries can set up a free trade agreement that applies only to goods traded within the group — discriminating against goods from outside. Or they can give developing countries special access to their markets. Or a country can raise barriers against products that are considered to be traded unfairly from specific countries. And in services, countries are allowed, in limited circumstances, to discriminate. But the agreements only permit these exceptions under strict conditions. In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners — whether rich or poor, weak or strong.

2. National treatment: Treating foreigners and locals equally Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. This principle of "national treatment" (giving others the same treatment as one's own nationals) is also found in all the three main WTO agreements (Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS), although once again the principle is handled slightly differently in each of these.

National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if locally-produced products are not charged an equivalent tax.

Why 'most-favoured'?

This sounds like a contradiction. It suggests special treatment, but in the WTO it actually means non-discrimination — treating virtually everyone equally.
This is what happens. Each member treats all the other members equally as "most-favoured" trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same "best" treatment to all the other WTO members so that they all remain "most-favoured".

Most-favoured nation (MFN) status did not always mean equal treatment. The first bilateral MFN treaties set up exclusive clubs among a country's "most-favoured" trading partners. Under GATT and now the WTO, the MFN club is no longer exclusive. The MFN principle ensures that each country treats its over-140 fellow-members equally.

But there are some exceptions ...

Freer trade: gradually, through negotiation

Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively. From time to time other issues such as red tape and exchange rate policies have also been discussed.

Since GATT's creation in 1947–48 there have been eight rounds of trade negotiations. A ninth round, under the Doha Development Agenda, is now underway. At first these focused on lowering tariffs (customs duties) on imported goods. As a result of the negotiations, by the mid-1990s industrial countries' tariff rates on industrial goods had fallen steadily to less than 4%

But by the 1980s, the negotiations had expanded to cover non-tariff barriers on goods, and to the new areas such as services and intellectual property.

Opening markets can be beneficial, but it also requires adjustment. The WTO agreements allow countries to introduce changes gradually, through "progressive liberalization". Developing countries are usually given longer to fulfil their obligations.

Predictability: through binding and transparency

Sometimes, promising not to raise a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choice and lower prices. The multilateral trading system is an attempt by governments to make the business environment stable and predictable.

The Uruguay Round increased bindings

Percentages of tariffs bound before and after the 1986–94 talks

	Before	After
Developed countries	78	99
Developing countries	21	73
Transition economies	73	98

(These are tariff lines, so percentages are not weighted according to trade volume or value)

In the WTO, when countries agree to open their markets for goods or services, they "bind" their commitments. For goods, these bindings amount to ceilings on customs tariff rates. Sometimes countries tax imports at rates that are lower than the bound rates. Frequently this is the case in developing countries. In developed countries the rates actually charged and the bound rates tend to be the same.

A country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. One of the achievements of the Uruguay Round of multilateral trade talks was to increase the amount of trade under binding commitments (*see table*). In agriculture, 100% of products now have bound tariffs. The result of all this: a substantially higher degree of market security for traders and investors.

The system tries to improve predictability and stability in other ways as well. One way is to discourage the use of quotas and other measures used to set limits on quantities of imports — administering quotas can lead to more red-tape and accusations of unfair play. Another is to make countries' trade rules as clear and public ("transparent") as possible. Many WTO agreements require governments to disclose their policies and practices publicly within the country or by notifying the WTO. The regular surveillance of national trade policies through the Trade Policy Review Mechanism provides a further means of encouraging transparency both domestically and at the multilateral level.

Promoting fair competition

The WTO is sometimes described as a "free trade" institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair and undistorted competition.

The rules on non-discrimination — MFN and national treatment — are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies. The issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade.

Many of the other WTO agreements aim to support fair competition: in agriculture, intellectual property, services, for example. The agreement on government procurement (a "plurilateral" agreement because it is signed by only a few WTO members) extends competition rules to purchases by thousands of government entities in many countries. And so on.

Encouraging development and economic reform

The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system's agreements. And the agreements themselves inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.

Over three quarters of WTO members are developing countries and countries in transition to market economies. During the seven and a half years of the Uruguay Round, over 60 of these countries implemented trade liberalization programmes autonomously. At the same time, developing countries and transition economies were much more active and influential in the Uruguay Round negotiations than in any previous round, and they are even more so in the current Doha Development Agenda.

At the end of the Uruguay Round, developing countries were prepared to take on most of the obligations that are required of developed countries. But the agreements did give them transition periods to adjust to the more unfamiliar and, perhaps, difficult WTO provisions — particularly so for the poorest, "least-developed" countries. A ministerial decision adopted at the end of the round says better-off countries should accelerate implementing market access commitments on goods exported by the least-developed countries, and it seeks increased technical assistance for them. More recently, developed countries have started to allow duty-free and quota-free imports for almost all products from least-developed countries. On all of this, the WTO and its members are still going through a learning process. The current Doha Development Agenda includes developing countries' concerns about the difficulties they face in implementing the Uruguay Round agreements.

3. The case for open trade

The economic case for an open trading system based on multilaterally agreed rules is simple enough and rests largely on commercial common sense. But it is also supported by evidence: the experience of world trade and economic growth since the Second World War. Tariffs on industrial products have fallen steeply and now average less than 5% in industrial countries. During the first 25 years after the war, world economic growth averaged about 5% per year, a high rate that was partly the result of lower trade barriers. World trade grew even faster, averaging about 8% during the period.

The data show a definite statistical link between freer trade and economic growth. Economic theory points to strong reasons for the link. All countries, including the poorest, have assets — human, industrial, natural, financial — which they can employ to produce goods and services for their domestic markets or to compete overseas. Economics tells us that we can benefit when these goods and services are traded. Simply put, the principle of "comparative advantage" says that countries prosper first by taking advantage of their assets in order to concentrate on what they can produce best, and then by trading these products for products that other countries produce best.

In other words, liberal trade policies — policies that allow the unrestricted flow of goods and services — sharpen competition, motivate innovation and breed success. They multiply the rewards that result from producing the best products, with the best design, at the best price.

But success in trade is not static. The ability to compete well in particular products can shift from company to company when the market changes or new technologies make cheaper and better products possible. Producers are encouraged to adapt gradually and in a relatively painless way. They can focus on new products, find a new "niche" in their current area or expand into new areas.

Experience shows that competitiveness can also shift between whole countries. A country that may have enjoyed an advantage because of lower labour costs or because it had good supplies of some natural resources, could also become uncompetitive in some goods or services as its economy develops. However, with the stimulus of an open economy, the country can move on to become competitive in some other goods or services. This is normally a gradual process.

TRUE AND NON-TRIVIAL?

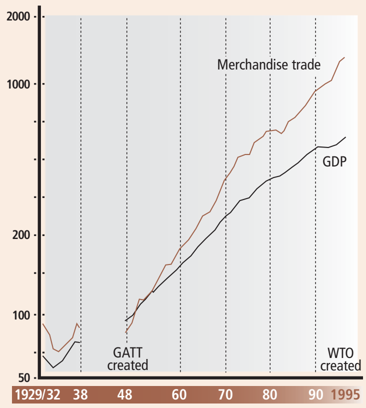
Nobel laureate Paul Samuelson was once challenged by the mathematician Stanislaw Ulam to "name me one proposition in all of the social sciences which is both true and non-trivial."

Samuelson's answer? Comparative advantage.

"That it is logically true need not be argued before a mathematician; that it is not trivial is attested by the thousands of important and intelligent men who have never been able to grasp the doctrine for themselves or to believe it after it was explained to them."

World trade and production have accelerated

Both trade and GDP fell in the late 1920s, before bottoming out in 1932. After World War II, both have risen exponentially, most of the time with trade outpacing GDP. (1950 = 100. Trade and GDP: log scale)



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Nevertheless, the temptation to ward off the challenge of competitive imports is always present. And richer governments are more likely to yield to the siren call of protectionism, for short term political gain — through subsidies, complicated red tape, and hiding behind legitimate policy objectives such as environmental preservation or consumer protection as an excuse to protect producers.

Protection ultimately leads to bloated, inefficient producers supplying consumers with outdated, unattractive products. In the end, factories close and jobs are lost despite the protection and subsidies. If other governments around the world pursue the same policies, markets contract and world economic activity is reduced. One of the objectives that governments bring to WTO negotiations is to prevent such a self-defeating and destructive drift into protectionism.

Comparative advantage

This is arguably the single most powerful insight into economics.

Suppose country A is better than country B at making automobiles, and country B is better than country A at making bread. It is obvious (the academics would say "trivial") that both would benefit if A specialized in automobiles, B specialized in bread and they traded their products. That is a case of **absolute advantage.**

But what if a country is bad at making everything? Will trade drive all producers out of business? The answer, according to Ricardo, is no. The reason is the principle of **comparative advantage.**

It says, countries A and B still stand to benefit from trading with each other even if A is better than B at making everything. If A is much more superior at making automobiles and only slightly superior at making bread, then A should still invest resources in what it does best — producing automobiles — and export the product to B. B should still invest in what it does best — making bread — and export that product to A, even if it is not as efficient as A. Both would still benefit from the trade. A country does not have to be best at anything to gain from trade. That is comparative advantage.

The theory dates back to classical economist David Ricardo. It is one of the most widely accepted among economists. It is also one of the most misunderstood among non-economists because it is confused with absolute advantage.

It is often claimed, for example, that some countries have no comparative advantage in anything. That is virtually impossible.

Think about it ...

4. The GATT years: from Havana to Marrakesh

The WTO's creation on 1 January 1995 marked the biggest reform of international trade since after the Second World War. It also brought to reality — in an updated form — the failed attempt in 1948 to create an International Trade Organization.

Much of the history of those 47 years was written in Geneva. But it also traces a journey that spanned the continents, from that hesitant start in 1948 in Havana (Cuba), via Annecy (France), Torquay (UK), Tokyo (Japan), Punta del Este (Uruguay), Montreal (Canada), Brussels (Belgium) and finally to Marrakesh (Morocco) in 1994. During that period, the trading system came under GATT, salvaged from the aborted attempt to create the ITO. GATT helped establish a strong and prosperous multilateral trading system that became more and more liberal through rounds of trade negotiations. But by the 1980s the system needed a thorough overhaul. This led to the Uruguay Round, and ultimately to the WTO.

The trade chiefs

The directors-general of GATT and WTO

- Sir Eric Wyndham White (UK) 1948–68
- Olivier Long (Switzerland) 1968–80
- Arthur Dunkel (Switzerland) 1980–93
- Peter Sutherland (Ireland)
  GATT 1993–94; WTO 1995
- Renato Ruggiero (Italy) 1995–1999
- Mike Moore (New Zealand) 1999–2002
- Supachai Panitchpakdi (Thailand)
  2002–2005
- Pascal Lamy (France) 2005–

GATT: 'provisional' for almost half a century

From 1948 to 1994, the General Agreement on Tariffs and Trade (GATT) provided the rules for much of world trade and presided over periods that saw some of the highest growth rates in international commerce. It seemed well-established, but throughout those 47 years, it was a provisional agreement and organization.

The original intention was to create a third institution to handle the trade side of international economic cooperation, joining the two "Bretton Woods" institutions, the World Bank and the International Monetary Fund. Over 50 countries participated in negotiations to create an International Trade Organization (ITO) as a specialized agency of the United Nations. The draft ITO Charter was ambitious. It extended beyond world trade disciplines, to include rules on employment, commodity agreements, restrictive business practices, international investment, and services. The aim was to create the ITO at a UN Conference on Trade and Employment in Havana, Cuba in 1947.

Meanwhile, 15 countries had begun talks in December 1945 to reduce and bind customs tariffs. With the Second World War only recently ended, they wanted to give an early boost to trade liberalization, and to begin to correct the legacy of protectionist measures which remained in place from the early 1930s.

This first round of negotiations resulted in a package of trade rules and 45,000 tariff concessions affecting $10 billion of trade, about one fifth of the world's total. The group had expanded to 23 by the time the deal was signed on 30 October 1947. The tariff concessions came into effect by 30 June 1948 through a "Protocol of Provisional Application". And so the new General Agreement on Tariffs and Trade was born, with 23 founding members (officially "contracting parties").

The 23 were also part of the larger group negotiating the ITO Charter. One of the provisions of GATT says that they should accept some of the trade rules of the draft. This, they believed, should be done swiftly and "provisionally" in order to protect the value of the tariff concessions they had negotiated. They spelt out how they envisaged the relationship between GATT and the ITO Charter, but they also allowed for the possibility that the ITO might not be created. They were right.

The Havana conference began on 21 November 1947, less than a month after GATT was signed. The ITO Charter was finally agreed in Havana in March 1948, but ratification in some national legislatures proved impossible. The most serious opposition was in the US Congress, even though the US government had been one of the driving forces. In 1950, the United States government announced that it would not seek Congressional ratification of the Havana Charter, and the ITO was effectively dead. So, the GATT became the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995.

For almost half a century, the GATT's basic legal principles remained much as they were in 1948. There were additions in the form of a section on development added in the 1960s and "plurilateral" agreements (i.e. with voluntary membership) in the 1970s, and efforts to reduce tariffs further continued. Much of this was achieved through a series of multilateral negotiations known as "trade rounds" — the biggest leaps forward in international trade liberalization have come through these rounds which were held under GATT's auspices.

In the early years, the GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT Anti-Dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system. The eighth, the Uruguay Round of 1986–94, was the last and most extensive of all. It led to the WTO and a new set of agreements.

The GATT trade rounds

Year	Place/ name	Subjects covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–1961	Geneva (Dillon Round)	Tariffs	26
1964–1967	Geneva (Kennedy Round)	Tariffs and anti-dumping measures	62
1973–1979	Geneva (Tokyo Round)	Tariffs, non-tariff measures, "framework" agreements	102
1986–1994	Geneva (Uruguay Round)	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc	123

The Tokyo Round 'codes'

- Subsidies and countervailing measures — interpreting Articles 6, 16 and 23 of GATT
- Technical barriers to trade — sometimes called the Standards Code
- Import licensing procedures
- Government procurement
- Customs valuation — interpreting Article 7
- Anti-dumping — interpreting Article 6, replacing the Kennedy Round code
- Bovine Meat Arrangement
- International Dairy Arrangement
- Trade in Civil Aircraft

The Tokyo Round: a first try to reform the system

The Tokyo Round lasted from 1973 to 1979, with 102 countries participating. It continued GATT's efforts to progressively reduce tariffs. The results included an average one-third cut in customs duties in the world's nine major industrial markets, bringing the average tariff on industrial products down to 4.7%. The tariff reductions, phased in over a period of eight years, involved an element of "harmonization" — the higher the tariff, the larger the cut, proportionally.

In other issues, the Tokyo Round had mixed results. It failed to come to grips with the fundamental problems affecting farm trade and also stopped short of providing a modified agreement on "safeguards" (emergency import measures). Nevertheless, a series of agreements on non-tariff barriers did emerge from the negotiations, in some cases interpreting existing GATT rules, in others breaking entirely new ground. In most cases, only a relatively small number of (mainly industrialized) GATT members subscribed to these agreements and arrangements. Because they were not accepted by the full GATT membership, they were often informally called "codes".

They were not multilateral, but they were a beginning. Several codes were eventually amended in the Uruguay Round and turned into multilateral commitments accepted by all WTO members. Only four remained "plurilateral" — those on government procurement, bovine meat, civil aircraft and dairy products. In 1997 WTO members agreed to terminate the bovine meat and dairy agreements, leaving only two.

Did GATT succeed?

GATT was provisional with a limited field of action, but its success over 47 years in promoting and securing the liberalization of much of world trade is incontestable. Continual reductions in tariffs alone helped spur very high rates of world trade growth during the 1950s and 1960s — around 8% a year on average. And the momentum of trade liberalization helped ensure that trade growth consistently out-paced production growth throughout the GATT era, a measure of countries' increasing ability to trade with each other and to reap the benefits of trade. The rush of new members during the Uruguay Round demonstrated that the multilateral trading system was recognized as an anchor for development and an instrument of economic and trade reform.

But all was not well. As time passed new problems arose. The Tokyo Round in the 1970s was an attempt to tackle some of these but its achievements were limited. This was a sign of difficult times to come.

GATT's success in reducing tariffs to such a low level, combined with a series of economic recessions in the 1970s and early 1980s, drove governments to devise other forms of protection for sectors facing increased foreign competition. High rates of unemployment and constant factory closures led governments in Western Europe and North America to seek bilateral market-sharing arrangements with competitors and to embark on a subsidies race to maintain their holds on agricultural trade. Both these changes undermined GATT's credibility and effectiveness.

The problem was not just a deteriorating trade policy environment. By the early 1980s the General Agreement was clearly no longer as relevant to the realities of world trade as it had been in the 1940s. For a start, world trade had become far more complex and important than 40 years before: the globalization of the world economy was underway, trade in services — not covered by GATT rules — was of major interest to more and more countries, and international investment had expanded. The expansion of services trade was also closely tied to further increases in world merchandise trade. In other respects, GATT had been found wanting. For instance, in agriculture, loopholes in the multilateral system were heavily exploited, and efforts at liberalizing agricultural trade met with little success. In the textiles and clothing sector, an exception to GATT's normal disciplines was negotiated in the 1960s and early 1970s, leading to the Multifibre Arrangement. Even GATT's institutional structure and its dispute settlement system were causing concern.

These and other factors convinced GATT members that a new effort to reinforce and extend the multilateral system should be attempted. That effort resulted in the Uruguay Round, the Marrakesh Declaration, and the creation of the WTO.

Trade rounds: progress by package

They are often lengthy — the Uruguay Round took seven and a half years — but trade rounds can have an advantage. They offer a package approach to trade negotiations that can sometimes be more fruitful than negotiations on a single issue.

• The size of the package can mean more benefits because participants can seek and secure advantages across a wide range of issues.

• Agreement can be easier to reach, through trade-offs — somewhere in the package there should be something for everyone.

This has political as well as economic implications. A government may want to make a concession, perhaps in one sector, because of the economic benefits. But politically, it could find the concession difficult to defend. A package would contain politically and economically attractive benefits in other sectors that could be used as compensation.

So, reform in politically-sensitive sectors of world trade can be more feasible as part of a global package — a good example is the agreement to reform agricultural trade in the Uruguay Round.

• Developing countries and other less powerful participants have a greater chance of influencing the multilateral system in a trade round than in bilateral relationships with major trading nations.

But the size of a trade round can be both a strength and a weakness. From time to time, the question is asked: wouldn't it be simpler to concentrate negotiations on a single sector? Recent history is inconclusive. At some stages, the Uruguay Round seemed so cumbersome that it seemed impossible that all participants could agree on every subject. Then the round did end successfully in 1993–94. This was followed by two years of failure to reach agreement in the single-sector talks on maritime transport.

Did this mean that trade rounds were the only route to success? No. In 1997, single-sector talks were concluded successfully in basic telecommunications, information technology equipment and financial services.

The debate continues. Whatever the answer, the reasons are not straightforward. Perhaps success depends on using the right type of negotiation for the particular time and context.

The 1986 agenda

The 15 original Uruguay Round subjects

Tariffs
Non-tariff barriers
Natural resource products
Textiles and clothing
Agriculture
Tropical products
GATT articles
Tokyo Round codes
Anti-dumping
Subsidies
Intellectual property
Investment measures
Dispute settlement
The GATT system
Services

The Uruguay Round — Key dates

Sep 86 Punta del Este: launch

Dec 88 Montreal: ministerial mid-term review

Apr 89 Geneva: mid-term review completed

Dec 90 Brussels: "closing" ministerial meeting ends in deadlock

Dec 91 Geneva: first draft of Final Act completed

Nov 92 Washington: US and EU achieve "Blair House" breakthrough on agriculture

Jul 93 Tokyo: Quad achieve market access breakthrough at G7 summit

Dec 93 Geneva: most negotiations end (some market access talks remain)

Apr 94 Marrakesh: agreements signed

Jan 95 Geneva: WTO created, agreements take effect

5. The Uruguay Round

It took seven and a half years, almost twice the original schedule. By the end, 123 countries were taking part. It covered almost all trade, from toothbrushes to pleasure boats, from banking to telecommunications, from the genes of wild rice to AIDS treatments. It was quite simply the largest trade negotiation ever, and most probably the largest negotiation of any kind in history.

At times it seemed doomed to fail. But in the end, the Uruguay Round brought about the biggest reform of the world's trading system since GATT was created at the end of the Second World War. And yet, despite its troubled progress, the Uruguay Round did see some early results. Within only two years, participants had agreed on a package of cuts in import duties on tropical products — which are mainly exported by developing countries. They had also revised the rules for settling disputes, with some measures implemented on the spot. And they called for regular reports on GATT members' trade policies, a move considered important for making trade regimes transparent around the world.

A round to end all rounds?

The seeds of the Uruguay Round were sown in November 1982 at a ministerial meeting of GATT members in Geneva. Although the ministers intended to launch a major new negotiation, the conference stalled on agriculture and was widely regarded as a failure. In fact, the work programme that the ministers agreed formed the basis for what was to become the Uruguay Round negotiating agenda.

Nevertheless, it took four more years of exploring, clarifying issues and painstaking consensus-building, before ministers agreed to launch the new round. They did so in September 1986, in Punta del Este, Uruguay. They eventually accepted a negotiating agenda that covered virtually every outstanding trade policy issue. The talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles. All the original GATT articles were up for review. It was the biggest negotiating mandate on trade ever agreed, and the ministers gave themselves four years to complete it.

Two years later, in December 1988, ministers met again in Montreal, Canada, for what was supposed to be an assessment of progress at the round's half-way point. The purpose was to clarify the agenda for the remaining two years, but the talks ended in a deadlock that was not resolved until officials met more quietly in Geneva the following April.

Despite the difficulty, during the Montreal meeting, ministers did agree a package of early results. These included some concessions on market access for tropical products — aimed at assisting developing countries — as well as a streamlined dispute settlement system, and the Trade Policy Review Mechanism which provided for the first comprehensive, systematic and regular reviews of national trade policies and practices of GATT members. The round was supposed to end when ministers met once more in Brussels, in December 1990. But they disagreed on how to reform agricultural trade and decided to extend the talks. The Uruguay Round entered its bleakest period.

Despite the poor political outlook, a considerable amount of technical work continued, leading to the first draft of a final legal agreement. This draft “Final Act” was compiled by the then GATT director-general, Arthur Dunkel, who chaired the negotiations at officials’ level. It was put on the table in Geneva in December 1991. The text fulfilled every part of the Punta del Este mandate, with one exception — it did not contain the participating countries’ lists of commitments for cutting import duties and opening their services markets. The draft became the basis for the final agreement.

Over the following two years, the negotiations lurched between impending failure, to predictions of imminent success. Several deadlines came and went. New points of major conflict emerged to join agriculture: services, market access, anti-dumping rules, and the proposed creation of a new institution. Differences between the United States and European Union became central to hopes for a final, successful conclusion.

In November 1992, the US and EU settled most of their differences on agriculture in a deal known informally as the “Blair House accord”. By July 1993 the “Quad” (US, EU, Japan and Canada) announced significant progress in negotiations on tariffs and related subjects (“market access”). It took until 15 December 1993 for every issue to be finally resolved and for negotiations on market access for goods and services to be concluded (although some final touches were completed in talks on market access a few weeks later). On 15 April 1994, the deal was signed by ministers from most of the 123 participating governments at a meeting in Marrakesh, Morocco.

The delay had some merits. It allowed some negotiations to progress further than would have been possible in 1990: for example some aspects of services and intellectual property, and the creation of the WTO itself. But the task had been immense, and negotiation-fatigue was felt in trade bureaucracies around the world. The difficulty of reaching agreement on a complete package containing almost the entire range of current trade issues led some to conclude that a negotiation on this scale would never again be possible. Yet, the Uruguay Round agreements contain timetables for new negotiations on a number of topics. And by 1996, some countries were openly calling for a new round early in the next century. The response was mixed; but the Marrakesh agreement did already include commitments to reopen negotiations on agriculture and services at the turn of the century. These began in early 2000 and were incorporated into the Doha Development Agenda in late 2001.

What happened to GATT?

The WTO replaced GATT as an international organization, but the General Agreement still exists as the WTO’s umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations. Trade lawyers distinguish between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994. Confusing? For most of us, it’s enough to refer simply to “GATT”.

The post-Uruguay Round built-in agenda

Many of the Uruguay Round agreements set timetables for future work. Part of this "built-in agenda" started almost immediately. In some areas, it included new or further negotiations. In other areas, it included assessments or reviews of the situation at specified times. Some negotiations were quickly completed, notably in basic telecommunications, financial services. (Member governments also swiftly agreed a deal for freer trade in information technology products, an issue outside the "built-in agenda".)

The agenda originally built into the Uruguay Round agreements has seen additions and modifications. A number of items are now part of the Doha Agenda, some of them updated.

There were well over 30 items in the original built-in agenda.
This is a selection of highlights:

1996

- Maritime services: market access negotiations to end (30 June 1996, suspended to 2000, now part of Doha Development Agenda)
- Services and environment: deadline for working party report (ministerial conference, December 1996)
- Government procurement of services: negotiations start

1997

- Basic telecoms: negotiations end (15 February)
- Financial services: negotiations end (30 December)
- Intellectual property, creating a multilateral system of notification and registration of geographical indications for wines: negotiations start, now part of Doha Development Agenda

1998

- Textiles and clothing: new phase begins 1 January
- Services (emergency safeguards): results of negotiations on emergency safeguards to take effect (by 1 January 1998, deadline now March 2004)
- Rules of origin: Work programme on harmonization of rules of origin to be completed (20 July 1998)
- Government procurement: further negotiations start, for improving rules and procedures (by end of 1998)
- Dispute settlement: full review of rules and procedures (to start by end of 1998)

1999

- Intellectual property: certain exceptions to patentability and protection of plant varieties: review starts

2000

- Agriculture: negotiations start, now part of Doha Development Agenda
- Services: new round of negotiations start, now part of Doha Development Agenda
- Tariff bindings: review of definition of “principle supplier” having negotiating rights under GATT Art 28 on modifying bindings
- Intellectual property: first of two-yearly reviews of the implementation of the agreement

2002

- Textiles and clothing: new phase begins 1 January

2005

- Textiles and clothing: full integration into GATT and agreement expires 1 January

4

INTRODUCTION

Free Turtles—Free Trade

THE LEATHERBACK, SO NAMED BECAUSE ITS SHELL IS LEATHERY to the touch, is a western Pacific–based sea turtle that can grow to six feet in length. Some leatherbacks weigh nearly a ton. If they are lucky (lately, luck for them has all but run out), such turtles can live 80 years or more.

Having survived the age of dinosaurs, leatherbacks may finally have reached the end of their 100-million-year run, or crawl. On the east coast of Peninsular Malaysia (normally a nesting ground for tens of thousands of hatchlings each year), the birth numbers have dwindled to an average of 10 per season. In 2006, only five nests were found, from two turtles. Not a single hatchling emerged. Today, the leatherback turtle, the largest animal of its kind, is on the verge of extinction.

Leatherbacks, at least those that remain, spend virtually their entire life at sea. Migratory patterns carry them throughout the world's oceans. Females seek land once each year to deposit their eggs on sandy beaches.

Turtle hunting, egg harvesting, and even global climate changes are key factors that have harmed the leatherback. "People sell eggs, they eat eggs, then there are the pigs and dogs that come in and dig up nests," says Kitty Simonds of the Western Pacific Regional Fishery Management Council. "Then there's development . . . hotels . . . and anything that comes close to the shore, like lights, is bad for turtles."[1]

When out to sea, which is almost always, leatherbacks often dive for jellyfish, their favorite food. These turtles have been known to descend to a depth of 3,900 feet (1,188 meters), holding their breath all the while. Although leatherbacks can stay beneath the surface for nearly half an hour while diving, they must come up to take in air. If trapped underwater, leatherbacks will drown.

They have been drowning by the thousands. Although egg hunters and scavenging pigs have taken their toll on the leatherback, it is the suffocating of turtles in the nets of trolling shrimp hunters that has brought the creatures' plight to the attention of the world and has compelled at least one country, the United States, to take the lead in combating the problem.

In 1989, in accordance with the terms of the federal Endangered Species Act of 1973, the United States Congress banned the "taking" (harassment, hunting, capturing, killing, or attempting to do any of these) of five species of sea turtles found in U.S. waters. Shrimp hunters, when fishing in areas where there was a high likelihood of encountering turtles, were required to use Turtle Excluder Devices (TEDs) to prevent the animals from becoming entangled in their nets and drowning.

A TED is essentially a grid of bars with an opening that is placed at the top or bottom of a trawl net. It acts as a trapdoor: Smaller animals, such as shrimp, pass through the bars, but larger animals, such as turtles and sharks, are ejected from the trawl when they strike the bars. According to the National Marine Fisheries Service (NMFS), "TEDs are effective at excluding up to 97% of sea turtles from shrimp nets."[2]

The U.S. law also affected countries that wished to export shrimp to the United States. If fishers of other countries did not use TEDs (where appropriate) as they gathered shrimp in their nets, their shrimp catch was banned from importation into the United States. Countries that wished to avoid this exclusion had to become certified as "turtle friendly" by the United States.

In October 1996, India, Pakistan, Thailand, and Malaysia complained. They claimed that the TED law was an unfair barrier to free trade (an open trading system with few limitations). The four Asian countries said, in effect, that the United States had no right to impose its domestic environmental values on other countries. To these countries this was a trade issue, pure and simple. The United States was seeking to exclude their products (shrimp) in a blatant protectionist effort to shield its own fishers from foreign competition.

Fortunately for the "Asian four," there was now a world body to which they could turn to for resolution: the World Trade Organization (WTO). Established in 1995 as a successor to the General Agreement on Tariffs and Trade (GATT), the WTO has the function of promoting (some would say mandating) freer trade. The WTO took up the case, and in April 1998 it ruled in favor of the Asian nations. The WTO ruling declared that the U.S. law was discriminatory and a barrier to free trade.

To environmentalists, the WTO action was no surprise. By 1998, the World Trade Organization already had become the object of resentment and animosity: It was an organization run by rich countries and beholden to multinational corporations, the environmentalists felt. Commerce was the only thing on the WTO's mind, and never mind the environment. Even though one of the richest of all countries, the United States, was, in this case, "fighting the good fight" for sea turtle survival.The WTO

On November 29, 1999, animal protection advocates wearing sea turtle costumes while carrying signs marched in protest of a WTO ruling that the U.S. Turtle-Shrimp law, which required shrimpers to use a turtle lifesaving device in their nets, as an unfair barrier to trade. A crowd of demonstrators that some say numbered over 40,000 clashed with police and the National Guard, drawing worldwide attention and giving it the name "the Battle of Seattle."

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itself was, the environmentalists bemoaned, doing what it does best: forcing countries to lift barriers to the free flow of goods and services at the expense of the environment.

On further examination, however, it turns out that the initial WTO ruling against the United States was more complex and not nearly so insistent. The WTO was quick to point out just what its Appellate (review) Body said and did not say in the case. According to the WTO Web site, the international organization declared:

> We have *not* decided that the protection and preservation of the environment is of no significance to the Members of the WTO. Clearly it is.
>
> We have *not* decided that the sovereign nations that are Members of the WTO cannot adopt effective measures to protect endangered species, such as sea turtles. Clearly they can and should.
>
> And we have *not* decided that sovereign states should not act together . . . either within the WTO or in other international fora [forums], to protect endangered species or to otherwise protect the environment. Clearly they should and do.[3]

What the WTO did say, as is pointed out on its Web site, is that the measure as applied by the United States is being carried out in an arbitrary and discriminatory manner among members of the WTO.

The United States lost the case not, as some critics of the ruling supposed, because it sought to protect the environment. It lost because it discriminated among WTO members. According to the WTO, "the United States provided countries in the Western Hemisphere—mainly the Caribbean—technical and financial assistance and longer transition periods for their fishermen to start using turtle-excluder devices. It did not give the same advantage, however, to the four Asian countries

(India, Malaysia, Pakistan, and Thailand) who filed the complaint with the WTO."[4]

Under the WTO charter, a nondiscrimination clause requires that one country not impose restrictions on another country that it does not require of all other countries. The WTO determined that the United States had done just that by favoring Caribbean countries over the Asian countries.

The United States appealed the WTO decision. At the same time, it sought to conform to the WTO compliance steps designed to eliminate the discrimination. For example, the United States offered technical training in the design, construction, installation, and operation of TEDs (each of which cost from $50 to $300) to any government that requested it. As a result of such actions, the WTO reversed its earlier ruling and declared that the United States had made good-faith efforts to negotiate new, nondiscriminatory agreements.

Malaysia was not satisfied and again appealed the case, but to no avail. Malaysia never attempted to attain certification as a nation that could export shrimp to the United States. On June 15, 2001, the WTO Dispute Settlement Body upheld America's revised, although considerably weakened, turtle protection measures. Now, shrimp are allowed into the United States if they are carried there by any ship that employs turtle protection technology, regardless of whether the ship actually caught the shrimp. Critics call this "shrimp laundering."

Today, as a result of U.S. environmental polices and the efforts of many Malaysians and others who are concerned with saving sea turtles, the prospects for sea turtle survival have increased. There is no guarantee, however, that all will end well for the leatherbacks. It will be many years, perhaps 20 or 30, before efforts to revive turtle populations can be declared a success.

In this situation, the WTO comes out looking reasonably good because, ultimately, it sided with a country's right to impose environmental regulations beyond its borders. Many people around the world do not see the WTO in such a positive light, however. According to detractors, the WTO's actions in this case only illustrate that the exception (if, indeed, it can be called that) proves the rule. When taken in total, the detractors say, the international trade organization's decisions affecting the environment are almost always pro-corporate and anti-environment.

On such matters as the right of workers to a decent wage, the importation of dangerous substances, environmental degradation, the loss of national sovereignty, and antagonisms between rich countries and poor countries, activists increasingly seek to challenge the WTO in its role as champion of free trade and globalization (a closer integration of the countries of the world). Today, the WTO consists of 152 member nations, and the organization sets the rules for world trade. In 2006, that trade was valued at $17 trillion.[5] Sea turtle survival may be the least of the WTO's, and the world's, challenges in the years to come.

3
High-income countries and trade

High-income countries dominate the politics of global trade. A profile of the attitude of high-income countries towards trade negotiations and trade in general tells a lot about the realpolitik of global trade.

Trade fights between high-income countries

Although high-income countries generally sort out their differences before key WTO negotiations, and are generally keen to present a united face at such talks, the reality is that most of the world's trade is conducted between high-income countries and therefore a lot of differences exist between them about trade policy. In 2001 some 64 per cent of all the world's exports came out of high-income countries while 67 per cent of all the world's imports went into high-income countries.[1] This means there is a lot at stake in the trade between high-income countries. And there has been no lack of vexed trade politics between them.

Much of the aggravation has been expressed through challenges mounted by one high-income country against another through the WTO trade disputes settlement process. One commonly challenged issue is US trade law. For a long time a US statute known as the Foreign Sales Corporation Act has exempted the overseas sales of US transnational corporations from US company tax. In the late 1990s the European Union challenged the act, and in 2000 the WTO ruled the scheme was discriminatory and said it had to be abolished. The US, however, stalled implementation of the WTO decision, and by early 2004 the EU was threatening to apply retaliatory trade sanctions unless it complied. A similar case brought to the WTO in 2001 involved a US law known as the Byrd Amendment. This law gives the proceeds from extra import duties imposed on goods imported into the US at (what are deemed) unreasonably low prices to those US companies that first identified the dumping. The WTO found the law to be illegal and gave the US until late 2003 to get rid of it. The US failed to do so, and in 2004 the WTO authorised the European Union, and other complainants, to impose retaliatory tariffs on the US.[2]

Another commonly challenged issue has been discriminatory purchasing laws. In 1996 the US state of Massachusetts introduced a selective purchasing law that discriminated against goods from the military-governed country Myanmar (Burma). In 1997 both the EU and Japan challenged the law through the WTO arguing it was anti-trade. In the end the law was defeated through internal US constitutional challenges but the WTO challenge hastened its demise.[3] A similar situation occurred in the US state of Maryland: its senate rejected legislation that would have banned state government contracts with firms that did business with the (then) repressive regime in Nigeria after the US State Department testified that the legislation would violate international trade rules.[4]

Other issues that have attracted WTO challenges between high-income countries have included attempts to prop up domestic industries. With the US economy in recession and a glut of steel flooding on to the world steel market, in 2002 US President George W. Bush imposed a 30 per cent tariff on steel imported into the US. The tariff was immediately challenged by the EU, and in 2003 the WTO ruled that the tariff was illegal and had to be scrapped (which it was shortly thereafter). Yet another source of US/EU trade tension is the amount of subsidy each claims the other gives to its airline industry. The US claims that the European Airbus corporation is subsidised through government provision of capital needed for the development of new aircraft, while the EU claims that the US Boeing corporation unfairly benefits from the high level of spending by the US space department NASA and the US Defense Department.[5] In 2005 this issue was taken to the WTO.

The US has been particularly hostile to the EU's agricultural policies. In 1988 the EU banned the sale of beef from cattle treated with artificial hormones that have been linked to cancer and have been shown to have genotoxic effects. The US had long opposed this policy and in 1996 challenged the ban through the WTO at the behest of the US National Cattlemens Association.[6] In 1997 the WTO ruled that the ban was forbidden and that the EU must open its markets to hormone-treated beef – a decision upheld in a 1998 appeal. Instead of complying with the decision the EU undertook further risk assessments of the hormones, but the US refused to consider the new assessment findings and was given permission by the WTO to impose retaliatory trade sanctions.[7] By late 2003 the EU had still not lifted the ban but had changed its laws in a way it claimed complied with the ruling. The US said the EU had still not properly complied and refused to lift its retaliatory tariffs.[8]

A really big issue of future trade conflicts between the US and the EU will be genetically modified organisms (GMOs). The US has always had a relaxed attitude towards genetically modified food and has included it in food aid given to African countries but the EU has a more cautious approach. In 1990 the EU introduced stringent regulations about the introduction of GMOs under which about twelve GMOs were subsequently released but in 1999 it halted the approval of new GMO releases pending the adoption of policies on GMO segregation and labelling.[9] In 2001 new EU GMO regulations were released but they contained flaws that prompted six EU member states to declare that they would continue to prohibit new GMO releases until the flaws were fixed (which they subsequently were in EU legislation released for comment in 2003). By late 2002, however, the US had become sufficiently annoyed with the EU attitude towards GMOs to start preparing a WTO challenge to the EU GMO laws. The US delayed the challenge to allow it time to woo EU support for its invasion of

Iraq in early 2003, but in May 2003 it announced it would go ahead with the challenge. This got under way in June 2004, and if it succeeds it will signal to the world that deep concerns over the impact of new food technology cannot be allowed to stand in the way of the almighty force of global trade.

Until the Uruguay Round there had been tacit agreement between the US and the EU that world trade negotiations would not include agriculture (even though agriculture had been covered, at least in principle, by the 1947 General Agreement on Tariffs and Trade (GATT)). In 1955 the US had even threatened to leave the GATT unless US agricultural subsidies were exempted from the GATT regime.[10] The agreement unravelled, however, during the 1980s when the US and EU became locked in an intense farm subsidy battle that produced large farm surpluses that both sides were desperate to export.[11] The upshot was that the US joined with low-income countries in pushing for agriculture to be included in the Uruguay Round and these days it generally supports more radical cuts in farm subsidies than the EU does although, in the end, both sides still often come to an arrangement that allows them to retain most of their subsidies.

High-income country disputes over agricultural trade are not confined to the EU and the US. For a long time Australia has not allowed the import of uncooked salmon. In 1996, after the US and Canada requested Australian access for their uncooked salmon, Australia decided it would not allow the salmon in. It based its decision on a risk assessment that identified some 20 bacteria not present in Australian salmon but present in Canadian salmon.[12] In response in 1997 Canada challenged the decision at the WTO and was joined by the US. In June 1998 the WTO ruled against Australia, a decision that was upheld on appeal in November 1998.[13] Despite several attempts by Australia to interpret the WTO ruling narrowly, in 2000 it was forced to reach an agreement with Canada and the US that allowed in their uncooked salmon.

Growing high-income country unease about global trade

After many decades of relative acceptance of increased global trade, at the start of the twenty-first century there were increasing signs of growing unease amongst a large proportion of the population of high-income countries about the costs of global trade. This unease was particularly pronounced in Western Europe and the United States. By 2005 many, if not most, Western Europeans, particularly in Britain, Holland and France, were anxious about the proposed new European Union constitution – which would increase trade with Eastern Europe – and about the proposed deregulation of the trade in services amongst European Union countries. While in the United States the increasing trade deficit with China was a source of growing angst.

Trade fights between high- and low-income countries

High-income countries also of course have fights with low-income countries. Often the fights involve the few export products that low-income countries have a competitive advantage in, particularly agriculture and textiles. Recently the list has also included outsourced services. Low-income countries are resentful that high-income countries subsidise their farm products and are also resentful about the protectionism high-income countries use against agricultural imports from low-income countries. High-income countries defend their subsidies by arguing that farming is integral to their cultures and is an important part of their overall economic make-up. High-income country farm subsidisation goes back to the depression years of the 1930s, in the case of the US, and post-Second World War reconstruction in the case of the EU. The US subsidisation of its cotton industry has been a particularly sore point with low-income countries. The US$3 billion annual subsidies the US pays to its 25,000 cotton farmers played a major part in the collapse of the Cancún WTO talks in September 2003. In September 2002 the Brazilian government challenged the US cotton subsidies at the WTO claiming they violated a Uruguay Round agreement that subsidies should not exceed their 1992 levels. In 2004 the WTO ruled against the US, finding their cotton subsidies did, in fact, violate the Uruguay Round agreement. A similar

WTO finding was made against EU sugar subsidies in August 2004.

As WTO agreements have driven tariff levels ever lower, the number of anti-dumping actions between high- and low-income countries has increased. Dumping is deemed to have taken place when a product is exported at a very low price – generally defined as a price lower than that of an equivalent product sold in the exporting country.[14] Traditionally, high-income countries have used anti-dumping actions to curtail low-income-country exports of products such as clothing and textiles, but increasingly low-income countries are using such actions to curtail high-income-country exports of subsidised farm produce. Anti-dumping actions have become very contentious.

A new area in which some low-income countries, such as India, are increasingly developing a competitive edge is the outsourcing (or 'off-shoring') of technology-enabled services such as accounting, billing, transcription, call centre operation, medical transcription and diagnosis, and general administration. In 2002 alone, the US spent US$450 billion on services outsourced to India and other countries that have educated English-speaking people such as the Philippines and Ireland as well as high-speed data transmission facilities.[15] But the growing scale of the outsourcing is fuelling much anxiety in high-income countries. So concerned has the US become that in January 2004 its government imposed a ban on the overseas outsourcing of government contracts. India called the move hypocritical given that the US is always urging low-income countries to open up their trade markets. Another recent attack on outsourcing to low-income countries has taken the form of claims that these low-income countries cannot offer the same standards of privacy and data protection that is normally expected in high-income countries.

Another sensitive trade issue between high- and low-income countries is the application of the Uruguay Round agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). As mentioned in Chapter 2, low-income countries are concerned that the TRIPS agreement could impact on their access to affordable essential medicines and could also limit their access to elements of biodiversity, like seeds, that they have long considered public property. High-income countries are concerned about slack enforcement of intellectual property rights in low-income countries and do not want to lose market share to generic copies. The fight over the application of the TRIPS agreement to essential medicines has been a particularly nasty one which was only resolved in 2003 through a complicated arrangement that involves low-income countries with no generic drug manufacturing capacity applying, in the first instance, to a non-generic drug manufacturer for a voluntary licence to import a generic copy of their drug. If that fails, the low-income country has to prove that it lacks the capacity to manufacture generic drugs of its own, and then must notify the WTO of its intent to import a generic copy. If they manage that they then must issue a compulsory licence to an overseas generic drug manufacturer who can import into the licence-issuing country so long as measures are taken to make sure the generic drugs are not re-exported.[16] The arrangement is very complicated and does not make it easy for low-income countries to access affordable medicines. This unwieldy agreement came after strenuous unsuccessful attempts by the US to limit the relaxation of the application of the TRIPS agreement to a few key diseases such as tuberculosis, malaria and Aids.

High-income countries' 'client state' relationships with low-income countries

One of the most profound changes over the past two decades in the trade relationship between high- and low-income countries has taken place as a result of unprecedented levels of investment by high-income countries in nearby low-income countries in order to take advantage of their low wages (and, in some cases, low taxes). Since the early 1980s Western Europe, Japan and the United States have all poured huge volumes of money into the countries of the former Eastern European bloc, Eastern Asia and Mexico (respectively) where they have established thousands of low-wage factories that carry out the labour-intensive parts of their production processes while leaving the less labour-intensive and more value-added part in their home countries. This has created a tight and potentially nasty 'client state' relationship between these high-income countries and their neighbouring low-income countries, a relationship in which the low-income countries become dependent on the high-income-country investment while the high-income countries keep most of the value-adding in their home countries (see Chapter 4). For Western Europe investment in low-wage eastern European countries was stimulated by the fall of the Berlin Wall in 1989 and the democratisation of Eastern Europe that followed shortly thereafter. Japanese investment in low-wage East Asian countries was stimulated by the large appreciation in the value of the Japanese yen in the mid-1980s which made exports from Japan less competitive and provided a strong incentive to shift export investment to neighbouring Asian mainland countries. Japan sweetened its new offshore investment with large increases in its foreign aid to East Asian countries. The big stimulus for the large United States investments in low-wage Mexico came with the signing of the North American Free Trade Agreement in 1994; like Japan, their investment was partly induced by large increases in the value of the dollar in the second half of the 1990s. Low-income countries outside of Eastern Europe, East Asia and Mexico have largely missed out on this new 'client state' investment, while low-income countries valued in these relationships have become tightly bound to the economic whims of their high-income-country investors.

The trade power of transnational corporations

The trade reach of transnational corporations

Increased global trade has meant increased possibilities for transnational corporations (TNCs) nearly all of which are based in high-income countries. Of the largest 100 TNCs in the world, 38 have their headquarters in Western Europe, 29 in the United States and 16 in Japan.[17] Of the largest 500 TNCs in the world only 29 are headquartered in low-income countries.[18] TNCs have experienced huge growth in recent decades. In the early 1990s the United Nations

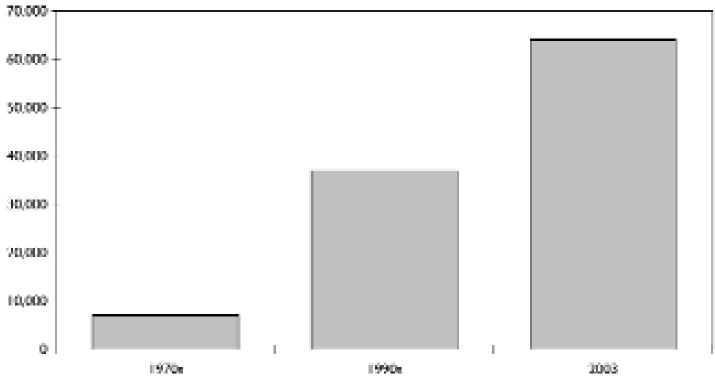

Figure 3.1 Total number of transnational corporations in the world

Source: *Economist*, 31 January 2004, p. 66 and Oswaldo de Rivero, *The Myth of Development: The Non-viable Economies of the 21st Century*, Zed Books, London, 2001, p. 46.

Conference on Trade and Development (UNCTAD) estimates there were 37,000 TNCs with 175,000 foreign subsidiaries but by 2003 they estimate there were 64,000 with 870,000 subsidiaries.[19] Back in the 1970s there were a mere 7,000 TNCs in existence.[20] This expansion has created a symbiotic relationship between TNCs and global trade. Global trade has given TNCs the ability to expand and as a result they have increasingly dominated and driven the direction of global trade. Today TNCs have enormous power over global trade – the largest 500 TNCs control nearly 70 per cent of all the world's trade.[21] About a third of global trade is conducted within individual TNCs – between different arms of the very same TNC.[22] In Delhi the Fashun Wears company, for instance, manufactures children's corduroy dresses for the chainstore Gap using synthetic lining and buttons made in China, zips made in South Korea and linen collars made by another supplier in India.[23] In 1988, US-based subsidiaries of Japanese companies purchased over 80 per cent of their inputs from their parent company in Japan then exported more than 60 per cent of their output back to the same company.[24] When Otis Elevators introduced a new elevator system recently it had the design of the motor drives done in Japan, the door systems were produced in France, the electronics were manufactured in Germany and the small gear components were assembled in Spain.[25] The age of Henry Ford's production line using local employees producing products for local demand made from local materials is fast disappearing. Much of the politics of global trade therefore now pivots around TNCs.

The trade policy influence of transnational corporations

Transnational corporations had enormous influence over the writing of some of the most contentious agreements struck during the Uruguay Round including the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement and the General Agreement on Trade in Services (GATS). Agitation for the TRIPS agreement followed lobbying of the Reagan administration by a number of large US software, pharmaceutical and chemical companies who wanted the administration to quantify the amount of revenue they claimed they were losing around the world through patent piracy.[26] Companies like Pfizer, Merck, Monsanto and Du Pont succeeded in getting the US government to force the TRIPS agreement into the Uruguay Round. A former Chief Executive of Pfizer, Edmund Pratt, even admitted 'our combined strength enabled us to establish a global private sector/government network which laid the ground for what became TRIPS'.[27] In its assessment of the Uruguay Round, Credit First Suisse Boston described the pharmaceutical industry as the 'greatest beneficiary' of the TRIPS agreement.[28] A major organising force behind the TRIPS agreement was the Intellectual Property Committee (IPC) of industry associations based in the US, Japan and the EU that was originally formed by Pfizer and IBM to ensure the TRIPS agreement said what they wanted it to say. They were subsequently joined by Monsanto, Merck, General Electric, Du Pont, Warner Communications, Hewlett-Packard, Bristol-Meyers, FMC Corporation, General Motors, Johnson and Johnson and Rockwell International.[29] James Enyart, director of international affairs at Monsanto, went so far as to say the following about the role of the IPC in formulating the TRIPS agreement:

> Industry has identified a major problem for international trade. It crafted a solution, reduced it to a concrete proposal and sold it to our own and other governments. The industries and traders of world commerce have played simultaneously the role of patients, the diagnosticians and the prescribing physicians.[30]

Large TNC finance companies including American Express, Credit First Suisse Boston and the American International Group were similarly involved in the writing of the GATS agreement. They even formed themselves into the Coalition for Service Industries sometimes also known as the 'AMEX coalition'.[31] TNCs also have a history of affecting trade decisions through political donations. The Clinton administration lodged (an ultimately successful) case with the WTO against the EU for giving preferential access to bananas from various low-income countries days after the US banana TNC Chiquita, gave a US$500,000 donation to Clinton's Democratic Party.[32]

TNC transfer pricing

TNCs don't always get their way with governments. One area in which there is increasing tension between the two is that of TNC profit reporting. Where TNCs report their profits as having been generated determines where they pay tax on those profits. Trade arrangements can have a large bearing on where profits are reported, and as its volume increases, trade is becoming ever more significant in the issue of corporate profit-reporting. The reporting of company profits is largely driven by the prices TNCs ascribe to their goods and services when they cross borders. Increasingly the governments of high-income countries, and to a lesser extent those of low-income countries, are becoming suspicious of the methodology TNCs use for determining their transfer prices and therefore where their profits are generated. They often fear that transfer prices are manipulated to minimise tax. In January 2004 the US Internal Revenue Service slapped a US$5.2 billion tax bill on the UK pharmaceutical TNC GlaxoSmithKline, claiming its predecessor, Glaxo Welcome, under-paid tax on profits it made in the US between 1989 and 1996.[33] Increasingly complex rules are being developed to regulate transfer pricing, the guiding principle being that they should be set at the price an independent party would pay for the same good or service.[34] This is a simple theoretical principle that can be difficult to apply in practice and the issue shows no promise of losing its heat any time soon. In 2001 a US Senate report claimed that in 2000 alone TNCs evaded US$45 billion in US corporate taxes; the Senate even found an instance where one firm sold toothbrushes between its subsidiaries for US$5,655 each in order to minimise tax.[35]

The protectionist history of high-income countries

These days high-income countries are at the vanguard of a global push for free trade. Going by the noises they make one would think they had always pursued free trade themselves. But the reality is that high-income countries generally have economic histories more characterised by protectionism than by free trade. When they were at the stage of economic development that many low-income countries are at today they generally doggedly stuck to protectionism to build up their 'infant industries'. The hesitation that many low-income countries have today about free trade is no different to the hesitation that high-income countries had when they were at similar stages of development.

The protectionist history of Britain and the United States

Historically, Britain and the United States are generally thought of as the champions of free trade but a discerning review of their economic histories reveals that most of their economic development has been built on protectionism. The Tudor monarchs, especially Henry VII (1485–1509), were responsible for transforming Britain from an exporter of raw wool into one of the most significant manufacturers of woollen garments in the world.[36] But they were only able to do so through using decidedly protectionist measures such as increasing the duties on, and even temporarily banning, the export of raw wool. Protectionist British navigation laws introduced in the 1650s restricted the entry of foreign ships into UK ports and gave the country a near-monopoly in its colonial trade. The first prime minister under George I, Robert Walpole, in 1721 broadened the manufacturing base of the country but again used protectionist measures to do so including the raising of tariffs on imported manufactured goods and the granting of export subsidies to manufactured export goods such as silk products and gunpowder. Britain continued these measures until the early nineteenth century when, after the Napoleonic Wars, there was agitation for free trade measures. This agitation culminated in the 1846 repeal of its laws that imposed tariffs on a range of food items (the Corn Laws) and many manufactured imports.[37] It is crucial to note, however, that the United Kingdom only lowered those tariffs once it had established a large and confident manufacturing base, and that it lowered them in part to thwart the establishment of similar manufacturing industries in continental Europe. By 1860 Britain had eliminated most of its tariffs, but its period of free trade proved short-lived. By the First World War the United Kingdom realised it was losing its competitive edge in manufacturing and in 1915 it introduced its protectionist McKenna tariff act; this was augmented in 1932 it with the Import Duties Act.[38]

Although Britain was the first country to pursue a full-blooded protectionist infant industry strategy, the United States was probably the most enthusiastic practitioner. Economic historian Paul Bairoch once described the US as 'the mother country and bastion of modern protectionism'.[39] Britain did not want its US colonies to industrialise but after independence from Britain the US was determined to. It started to establish a manufacturing base through protectionist measures such as the introduction in 1789 of a flat 5 per cent import tariff which between 1792 and 1812 was increased to an average of 12.5 per cent.[40] The first Treasury Secretary of the United States, Alexander Hamilton, wrote what is considered the definitive text on infant industry protectionism. George Washington even insisted on wearing lower quality US clothes – instead of higher-quality British ones – to his inauguration.[41] After war with Britain in 1812 the US significantly increased its long-term tariffs, especially for cotton, woollen and iron goods; between 1816 and the end of the Second World War it had one of the highest average tariff rates for manufactured imports in the world.[42] After the Civil War in particular the US experienced a period of rapid industrial growth enhanced by high tariff walls erected by the Republican governments of the time.[43] The use of tariffs was much debated within the US during the nineteenth century with manufacturers generally in favour of them but farmers generally opposed.[44] Even the infamous Smoot-Hawley tariff increases of 1930 – often viewed as extreme US protectionism – fell within the range of tariff rates that had prevailed in the US since the Civil War. Ulysses Grant, hero of the Civil War and president from 1868 to 1876, said when Britain was adopting free trade in the mid-nineteenth century, 'England has found it convenient to adopt free trade because it thinks that protection can no longer offer it anything. Very well then, gentlemen, my knowledge of our country leads me to believe that within 200 years, when America has gotten out of protection all it can offer, it too will adopt free trade.'[45] It was only after the Second World War – when the US had an industrial base that no other country could challenge – that it started to adopt free trade, but even then it continued to pursue many indirect forms of protectionism.

Protectionism in other high-income countries

Germany and France are often thought of as having unambiguously pursued protectionist policies throughout much of their history and it is generally no secret that they have historically been dubious about free trade. Although this reputation is somewhat exaggerated, the two countries have none the less taken a lot of protectionist initiatives. In the eighteenth century, under Frederick William and Frederick the Great, the state of Prussia erected high import tariffs to establish new industries much as Henry VII had done three centuries before in Britain. In 1879, after the creation of Germany, Otto von Bismarck, chancellor of the new country, significantly increased tariffs, particularly those applied to industries such as the iron and steel industries.[46] In the 1660s and 1670s the finance minister of Louis XIV of France, Jean-Baptiste Colbert, introduced a broad raft of protectionist tariffs.[47] Three centuries later, in the 1960s, France used a lot of interventionist government strategies, including the establishment of many government-owned businesses, to develop further its industrial base.[48] In Asia, until the early twentieth century Japan had a number of 'unequal treaties' that barred it from erecting tariff barriers but once they expired in 1911 it introduced a range of tariff reforms aimed at protecting infant industries; the reforms were generally targeted against the importation of luxury goods. After the Second World War Japan introduced a system of export subsidies and tariff rebates for imports used in re-exported goods.[49]

In short, almost all today's high-income-country advocates of free trade have a history of protected trade and are therefore very hypocritical in pushing free trade assertively today. Economic historian Ha-Joon Chang, of Cambridge University, argues 'when they were developing countries themselves, virtually all of today's developed countries did not practice free trade. … rather, they promoted their national interests through tariffs, subsidies and other measures'.[50] This does not mean that all high-income countries were always protectionist before the twentieth century (Switzerland and the Netherlands definitely were not), or that they all used the same protectionist devices, but it does mean it is hypocritical for them to deny similar protectionist opportunities to today's low-income countries.

The downsides of trade liberalisation in high-income countries

It is misleading to pretend that high-income countries always win from free trade. Some sectors in high-income countries certainly do win from free trade – transnational corporations in particular – but other sectors do not. One fairly consistent high-income-country loser from free trade is labour-intensive manufacturing. Many jobs in this sector have left high-income countries for lower-wage countries and those that have stayed have often had the threat of relocation used to lower the conditions attached to them. Since the WTO was established, the industrial base of the United States has been significantly hollowed out – with the loss of 2 million manufacturing jobs.[51] A recent survey of 10,000 industrial companies by the German Chamber of Commerce found that nearly a quarter planned to relocate at least part of their operations abroad, with lower wages being the most popular reason for moving.[52] Many German companies move to the countries of the former Eastern Europe where wages are 85 to 90 per cent lower than German wages – if the companies don't move they use the threat of moving to get more out of their workers. The German company Siemens recently managed to persuade its employees to increase their hours from 35 to 40 hours per week – without extra pay – in return for promising not to relocate to Hungary.[53] A factory located in France, run by German car part maker Robert Bosch, recently got its employees to work extra hours by promising not to move their jobs to the Czech Republic.[54] Champions of free trade argue that more exports from service industries in high-income countries make up for the loss of manufacturing jobs, but that all depends on whether a high-income country is competitive in services, and many manufacturing workers can't easily re-skill for service industry jobs even if they are. Another major problem is that the loss of manufacturing jobs narrows the economic base of high-income countries making them less able to weather global economic downturns when they come along.

In 2003 the Carnegie Endowment for International Peace assessed the ten-year impact of the North American Free Trade Agreement on its participating countries: the US, Canada and Mexico. In the US it found that the job creation that the agreement had been responsible for was somewhere between none and a few hundred thousand despite the prediction of Bill Clinton, when the agreement was signed, that it would create 200,000 US jobs in its first two years of operation alone.[55] In Canada – where free trade with the US began with the 1988 Canada–United States Free Trade Agreement – the Carnegie Endowment found that in those sectors that had previously enjoyed some tariff protection from US imports employment fell by 12 per cent, but in those export-based sectors that were well placed to increase exports to the US there was no overall increase in employment.[56] It also found there had been an increase in inequality in Canada during the life of the NAFTA agreement; this was probably not particularly due to the agreement but it could have been indirectly affected by the downward pressure NAFTA put on government spending which influenced the welfare spending of the Canadian government.[57]

A more subtle and complex trade problem for high-income countries is that trade has come to make up such a large part of their economic activity that policies that relate to other parts of their economy end up intersecting with their trade performance, often in unforeseen and undesirable ways. Germany once had one of the most dynamic economies in Western Europe with growth rates and per capita gross domestic product levels that outstripped most of its neighbours. By 2004, however, its per capita gross domestic product was only higher than four of the other fourteen (pre-expansion) members of the European Union; its rate of economic growth during the 1990s was only half that of the EU.[58] In the past it could have used both domestic interest rate and exchange rate policies to change this – a lower exchange rate would have made Germany's considerable volume of exports more competitive. But in January 1999 Germany joined the European single currency system and lost the ability to set its own interest rates or exchange rates. Germany joined the Euro because it thought the Euro would make the European Union more competitive and attractive to investment, but many Germans now regret their country's loss of economic autonomy. If trade didn't make up such a large part of the German economy the loss of exchange rate autonomy wouldn't matter so much but in 2000 Germany's exports equalled 30 per cent of its gross domestic product[59] and its loss of exchange rate autonomy has had a profound effect on its overall economic performance. The other European countries that use the Euro face a similar problem to Germany. From late 2001 the Euro began a long-term rise against the US dollar as the dollar continued to experience a sustained fall because of structural problems in the US economy (which are discussed in Chapter 8). But the rise in the value of the Euro is punishing the exports from those countries that use the currency; like Germany, exports generally make up a large part of the economic activity of those countries, so reduced exports mean reduced economic growth for them. Relying on exports too heavily opens an economy up to forces way beyond its control.

Like Germany, the United States is increasingly facing deep structural problems in its economy, in its case mainly to do with a large and deteriorating balance-of-payments situation which includes an ever-worsening trade balance. US balance-of-payments problems began in the 1980s: high US interest rates in the late 1970s had attracted a lot of overseas capital into the US economy which pushed up the value of the US dollar and made its exports less competitive. High US interest rates again played havoc with the value of the US dollar – and with its export competitiveness – in 1987 before the stockmarket crash of that year. Since then every time that US interest rates have started to get high its balance of payments and balance of trade have come under pressure. The US can't separate its interest rate policy from its trade performance. Like Germany, when trade was a smaller part of the US economy the detrimental effect that high interest rates could have on its trade performance did not matter so much. But now that trade accounts for a large part of its economic activity its intersection with interest rate policy does matter but the two can't easily be unscrambled.

Probably the most profound economic impact of increased global trade is that it has left all the countries of the world with much less choice about economic growth strategies. If a country pursues a high-growth strategy it is likely to experience increased inflation which will make its traded goods and services less competitive in the global marketplace; most countries these days therefore have little choice other than to pursue fairly low-growth/low-inflation strategies that will keep their exports competitive. But low growth often means high unemployment so jobless people often pay the price for export competitiveness. One of the first leaders to face this dilemma was US president Jimmy Carter who wanted to pursue fairly high economic growth during the second half of the 1970s but realised that he wouldn't be able to without eroding US trade competitiveness, unless the European Economic Community and Japan also pursued high-growth strategies. They refused to cooperate with Carter so he was left with little option other than to contain the economic growth of the US economy.

Trade is now such a large part of most high-income countries' economic activity that a loss of exports can have much the same economic effect as a major slowdown in domestic economic growth. But high-income countries have much less control over their trade performance than they have over their domestic economic growth and, as Germany and the US are now discovering, what is good for their domestic economy isn't always good for their trading relationship with the rest of the world.

High-income countries continue to call most of the shots in global trade politics at the expense of low-income countries, but invariably those that have the final say are not the governments of high-income countries but the large transnational corporations that stand over them. Free trade may yet prove a monster that could devour some high-income countries as many of them come to feel frustrated by their inability to pursue economic policies that will benefit their domestic economies because the policies may not necessarily benefit their trade performance. The two keep colliding.

Notes

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4
Low-income countries and trade

Low-income countries have traditionally been the underdogs of global trade negotiations but in recent years they have managed to take the fight to high-income countries. This has made trade negotiations less predictable than they once were. Many complex trade issues face low-income countries, and different groups of low-income countries face vastly different issues.

The emergence of Third and Fourth World low-income countries

One of the most fundamental economic issues facing low-income countries is that increasingly they are diverging; they can no longer be considered one 'job lot'. When it comes to trade and development there is no longer a conglomerate Third World but rather two very different Third and Fourth worlds. Trade statistics reveal the extent of the economic divergence. For the world as a whole the total value of exports trebled during the 1980s and 1990s with developing countries recording an increase slightly better than that of developed countries.[1] But behind the developing country figure were two vastly different stories. Over those two decades East and South Asia enjoyed an extra-ordinary export growth that resulted in a seven-fold increase, with

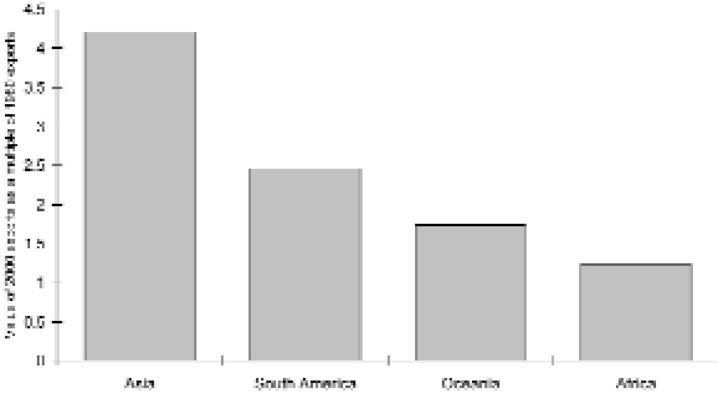

Figure 4.1 Growth of low-income country regional exports, 1980 to 2000

Source: 'UNCTAD Handbook of Statistics 2002', United Nations Conference on Trade and Development, United Nations, New York and Geneva, 2002, pp. 2–8.

some countries doing spectacularly well such as Vietnam (a 42-fold increase) and China (a 13-fold increase).[2] The developing countries of Central America and the Caribbean also enjoyed export growth above the developing-country average though much of it was due to Mexico's export growth. Other parts of the developing world performed much less spectacularly, however. South America only recorded a 1.5-fold increase while the countries of Oceania only experienced a 74 per cent growth.[3] African exports only increased by 24 per cent; exports from West Asia, including the Middle East, increased by the same amount.[4] Basically when it comes to running the export race, Eastern and Southern Asia, along with Central America and the Caribbean, are a long way in front while Africa and the Middle East are falling way behind, with the other developing countries coming in somewhere in between.

Another similarly lop-sided picture is revealed by the relative trade shares of specific low-income countries. A handful of low-income countries dominate developing country exports. UNCTAD classes 162 countries as ‘developing’ but just 11 of them accounted for 62 per cent – or nearly two-thirds – of all the exports by developing countries in 2001.[5] Brazil, Mexico, China, Argentina, India, Indonesia, Taiwan, Hong Kong, Malaysia, Singapore and Thailand are the 11 developing country exporting giants; all the other 151 developing countries are little more than pygmies by comparison. Unsurprisingly, today the politics of low-income trade negotiations are heavily influenced by the polarisation of trade shares.

Throughout the 1960s and 1970s, however, low-income countries were relatively united in their approach to trade politics. The many low-income countries that achieved independence between the 1940s and 1960s banded together in 1963 to make a joint declaration on trade to the United Nations. This was the catalyst for the creation of the Group of Seventy-seven (G77) low-income countries – named after the number of signatories to the original declaration. Amongst other things the 1963 declaration said:

> The existing principles and patterns of world trade still mainly favour the advanced parts of the world. Instead of helping the developing countries to promote the development and diversification of their economies, the present tendencies in world trade frustrate their efforts to attain more rapid growth. These trends must be reversed.[6]

The year after the declaration, low-income countries established their own trade forum – UNCTAD – which they saw as something of a counterweight to the high-income country organisation, the Organisation for Economic Cooperation and Development. Despite the objections of high-income countries low-income countries were able to get UNCTAD made into a permanent United Nations body, and after threatening to replace the General Agreement on Tariffs and Trade (GATT) with their own global trade body low-income countries were also able to get some commitments from high-income countries about access to their import markets and extending exemptions from GATT rules to them.[7] These changes ended up having little lasting effect, however, and by the 1980s a major cleavage in the trade direction of low-income countries was starting to open up. The so-called East Asian 'tiger' economies of Taiwan, South Korea, Hong Kong and Singapore were starting to achieve major increases in trade, largely because of their use of decidedly non-free trade devices such as both government subsidisation of exporters and the application of local-content and technology-transfer rules to foreign investors (rules since outlawed by Uruguay Round agreements). During the 1990s the original four 'tiger' economies were joined by other East Asian 'mini tiger' economies such as Thailand and Malaysia, and in 1994 Mexico started significantly expanding its exports after it joined the North American Free Trade Agreement. Also in the 1990s China began a major export expansion after economic changes ushered in by leader Deng Xiaoping; other hitherto fairly protectionist countries, such as India and Brazil, also began to significantly liberalise their trade policies. In the 1980s UNCTAD's influence began to wane, particularly after it failed to get agreement to global raw material price support schemes. Also during the 1980s a large number of low-income countries started actively participating in global trade talks, namely the Uruguay Round conducted between 1986 and 1993.

At the WTO trade negotiations held in Cancún in September 2003 it appeared, despite the divergences of the past two decades, that low-income countries had refound some of the unity on trade policy they had had during the 1960s and 1970s: the G22 group of low-income countries, led by Brazil, India and South Africa, were able to derail the Cancún talks after high-income countries attempted to push the Singapore issues into the round and were obstinate about reviewing their cotton subsidies (see Chapter 2). The Brazilian trade minister, Clodualdo Huguenuy, even boldly claimed that 'the G22 broke the monopoly over trade negotiations by the EU and US'.[8] By 2004, however, it was clear that the trade divergence amongst low-income countries had not gone away and that the G22 unity was something of an aberration.

After Cancún many low-income countries, such as Indonesia, became worried that the G22 (which eventually became the G20) was mainly concerned about securing greater market share for low-income-country agricultural exports and was relatively unconcerned about the ongoing protection of low-income country markets. In response another low-income-country grouping, the G33, continued pushing for various forms of insulation from WTO free trade rules for vulnerable low-income country industries.[9] Other groups of low-income countries were also concerned that the G22 was an inadequate defender of their interests and they grouped around a coalition known as the G90 which was mainly made up of African, Caribbean, Pacific and least-developed countries.[10]

Trade policy unity amongst low-income countries was severely tested during negotiations about the 2004 framework agreement for the Doha Round. The agreement was negotiated by a 'Five Interested Parties' group that included the European Union, the US, Australia (representing the Cairns Group of free trade agricultural export nations), India and Brazil. Although India and Brazil consulted extensively with other low-income countries, the agreement delivered few tangible gains for low-income countries, and it locked India and Brazil – hitherto two of the loudest low-income-country critics of WTO agreements – into the final outcome. As Walden Bello and Aileen Kwa, from the Focus on the Global South organisation, argued, 'the reality is that the G20, and in particular Brazil and India, have been accommodated into the ranks of the key global trading powers, but it is increasingly becoming clear that the price for this has been their diluting the strength of the negotiating position of the South'.[11] In September 2004 there were even rumours that India was contemplating a free trade agreement with the United States.[12]

By about 2015, China is likely to become the largest exporter and importer in the world.[13] It will almost certainly be impossible for it to achieve that status without it having a favourable attitude towards free trade, much as the United States did after it achieved the same status after the Second World War. Indeed Jonathan Anderson, an economist with the UBS company, claims China is currently one of the most rapidly liberalising economies in the world and is opening up its markets much more than other large low-income economies like India or Brazil are.[14] Increasingly, low-income countries are separating into competitive low-income countries – which want to play a limited form of the free trade game of high-income countries – and other low-income countries that want to have as little as possible to do with it. The upshot of this fracturing is that there are now vastly different trade agendas and priorities amongst low-income countries – priorities that can't necessarily be reconciled with each other. Commenting on the 2004 Doha Round framework agreement Robert Wade, professor of political economy at the London School of Economics, gave this summary of the divergence:

> … the developing countries do not have a united front. Some, including Malaysia and China, are prepared to accept such [tariff] cuts in return for equally radical tariff cuts by developed countries in those industrial sectors with tariff spikes intended to keep out imports from developing countries, such as textiles. Other developing countries, like Kenya and Zambia, insist on retaining substantial tariffs on some industrial imports so as to encourage the development of their weak industrial base.[15]

The issue of differing trade agendas amongst low-income countries looks like coming to a head in 2005 over the liberalisation of the global textile trade. At the time of writing many low-income countries such as Turkey, Mexico, Bangladesh, Mauritius and Lesotho – who currently export a lot of textiles – are fearful that once global textile trade is fully liberalised they will lose global market share to China and India.[16] China has already made major inroads into the textile exports of many low-income countries to the United States. Fearing that this will be repeated around the world, many low-income countries have lobbied the WTO to establish safety mechanisms such as lower tariffs for countries adversely affected by the textile trade liberalisation as well as changes in the way textile exports are classified and/or special assistance funds for countries who lose out. In a similar vein during the 2004 negotiation of the Doha Round framework agreement many low-income countries argued that there should be a special sub-category of low-income countries that would be separate from more advanced low-income countries; the members of this sub-category would be eligible for 'special and different' trade treatment. Although such a call was also made by the then European Union trade commissioner, Pascal Lamy, high-income countries were not supportive of such low-income country differentiation. As the Doha Round progresses the tensions between different low-income countries will only become more acute particularly when the really hard bargaining begins. This may see some large low-income countries, like Brazil, that have competitive export agricultural sectors, being prepared to make concessions on the protection of their service and industrial sectors in return for high-income countries' concessions on access to their agricultural markets; other low-income countries may be much less prepared to make such trade-offs.

Future trade relations between low-income countries

The seemingly permanent divergence amongst low-income countries poses a great challenge for them. At a time when they are starting to exercise some real clout in global trade talks, deep divisions are setting in amidst their ranks. At best these mean that no single trade prescription can any longer hope to accommodate all low-income countries – if it ever could. At worst it means that the day may not be far away when smaller, less competitive low-income countries have nasty public arguments over trade policy with larger, more competitive low-income countries. The day may not be too far away when trade relations between low-income countries dominate global trade relations in much the same way that trade relations between high-income countries currently do. In 1994 the *Economist* magazine predicted that by 2020 the proportion of global output that low-income countries are responsible for could reach 60 per cent and that by the same year nine of the largest fifteen economies in the world will be (what are currently) low-income countries.[17] Even though this prediction was made before the 1997 East Asian 'meltdown' it still largely holds. Such a change will return the world to the economic power balance that existed before the mid-nineteenth century, when China and India were the largest economies in the world.[18] Several (but by no means all) large low-income countries, particularly those in Eastern and Southern Asia, are growing very quickly. China is growing so fast that it has the official goal of quadrupling its 2002 gross domestic product by 2020.[19] East Asian low-income countries in particular are growing at a rate unprecedented in economic history. After the Industrial Revolution took off in the late eighteenth century, it took Britain 58 years to double its gross domestic product per head; from 1839 it took the US 47 years to do the same, from 1885 it took Japan 34 years to do something similar; but South Korea managed to do it in just 11 years starting in 1966; and China did it in fewer than ten years starting in the mid-1980s.[20]

As well as changes in global trade shares there will also be an enormous shift of overall global earnings towards low-income countries, powered by the sheer weight of their population increases. This too will have enormous implications for the future of global trade. By 2050 there will be about 9 billion people in the world, up from 6.3 billion people today. Nearly all the worldwide increase will take place in low-income countries. The only high-income country that will experience any significant population increase over the next half-century is the United States but its overall increase, of about 120 million, will be almost balanced out by falls in Europe and Japan, which between them are expected to lose 90 million people.[21]

These big shifts cannot help but have an enormous impact on global trade flows and therefore on global trade politics over the next few decades. Indeed they are already having a major impact. The share of exports from developing countries going to other developing countries rose from a little over 20 per cent in 1975 to just under 40 per cent in 1999.[22]

Today one group of low-income countries – including India, Brazil, China and South Africa – is interested in pursuing a limited version of the free trade agenda of today's high-income countries, while another group of low-income countries – including many African countries – is interested in a more protectionist agenda. In future there may be a lot of friction between the two camps. Low-income countries will need to be very careful about what trade choices they make over the coming decades. Trading relations between large, competitive low-income countries and smaller, less competitive low-income countries could, in future, be as bad as they currently are between high-income and low-income countries.

Current trade relations between low-income countries

These days public trade fights are not as common between low-income countries as they are between high-income countries but nevertheless significant wariness exists between low-income countries, and some have been prepared to have public fights over trade. Between January 1995 and January 2003 some 66 of the 279 trade disputes brought to the WTO (24 per cent) were between low-income countries.[23] Brazil and India were the fourth- and fifth-largest plaintiffs respectively (behind the United States, the EU and Canada) during that time.[24] At the other end of the low-income country spectrum, however, as of January 2003 not one of the fifty-two least developed countries in the world had brought a trade dispute to the WTO.[25] This statistic reinforces the reality of increasingly different trade agendas opening up amongst low-income countries.

A major expression of the different trade agendas of low-income countries occurred when China joined the WTO in 2001. This caused significant tensions amongst many low-income countries. Several, especially Mexico, were worried that many of their low-wage manufacturing jobs would be lost to China once it joined, and Mexico held out on allowing China to join for some time before succumbing to US pressure. Another expression of different low-income country trade agendas is found within the South American Mercosur trade grouping. There is a lot of tension within the group, particularly between Brazil and Argentina. Argentina feels that Brazil doesn't embrace the trade grouping enough while Brazil feels that Argentina doesn't embrace trade with high-income countries enough.[26] Other sources of tension are China and India and the perception of them by other low-income countries. Both China and India are rapidly expanding low-income economies which, eventually, will probably be the largest and second largest economies in the world. As they grow they are increasingly vying with each other for natural resources, foreign capital and export markets which makes them increasingly uneasy with each other.[27] But other low-income countries are becoming uneasy with the increasing dominance of China and India – evidenced by the very justified fears that China and India will end up taking a lot of textile market share from other low-income countries following the deregulation of global textile trade in 2005.

Growing low-income country unease about global trade

As in high-income countries, there is increasing wide-spread unease amongst low-income country societies about the costs of global trade. The unease has a longer history than in high-income countries and is more deep-seated; by 2005 it had come to be very publicly expressed. Large numbers of low-income country peasant farmers regularly protest outside World Trade Organisation meetings. Bolivians protest about the export of cheap gas from their country, Africans protest about low cotton prices, Indian farmers protest about opening their country up to more foreign competition while many societies throughout the Pacific protest about the export of timber from their local regions.

Trade fights between low- and high-income countries

Many of the large number of trade disputes between low and high-income countries are dealt with elsewhere in this book, but several general clusters of issues that such disputes often cover are worth briefly touching on. One is the view amongst many low-income countries that although they have relatively few goods and services that can compete with high-income countries, when they do develop such exports high-income countries always restrict their market access. This particularly applies to the trade of agricultural products, textiles and outsourced services. Many low-income countries are cynical about the likelihood of high-income countries ever really opening their agricultural markets, and a lot of trust has been destroyed over the high-income country Uruguay Round promise to progressively open up their trade in textiles. There is a lot of suspicion that global textile trade will not really be fully liberalised after 2005 as planned. Services tell a similar story. Countries like India have become competitive in computer and communications-related services but already the US has imposed a ban on government outsourcing of services to India. Many low-income countries would like greater freedom of movement of services-related workers between their countries and high-income countries, but high-income countries dismiss this as an immigration issue not a trade issue.

A second cluster of issues concerns the vulnerability of low-income countries. They often feel they simply can't compete with high-income country exports and shouldn't be expected to. They should be able to protect their local industries as high-income countries did for so long in the past, they feel. This particularly applies to agricultural and industrial liberalisation. A huge proportion of people in low-income countries are employed in agriculture – as many as 70 per cent in very poor low-income countries and 30 per cent in moderately poor low-income countries.[28] Not all these people produce traded agricultural produce but a significant proportion do, and the consequences of the forced opening of low-income-country farm markets to subsidised high-income-country farm exports could be very dire. Mexican corn farmers have already been devastated by the flood of cheap US corn that accompanied Mexico's joining the North American Free Trade Agreement in 1994. If that experience is repeated throughout the rest of the world, global poverty could sharply increase. It simply is unfair to wipe out by means of farm trade liberalisation the limited means of survival of hundreds of millions of low-income farm workers.

There is a similar risk of devastation of manufacturing jobs in low-income countries. The Uruguay Round agreement mandated that low-income countries had to end their import substitution subsidies by the end of 1999[29] while the 2004 Doha Round framework agreement said that the industrial goods with the highest tariffs would be subject to the steepest cuts – this could hit low-income countries in a big way because they often use high tariffs to protect their fledgling manufacturing industries. In addition, the agreement on Trade-related Investment Measures (TRIMS agreement) stipulated that low-income countries could not use local content rules to stimulate local industrial development. These measures come on top of liberalisation already forced on low-income countries by the IMF and World Bank and destroy a lot of the hope that low-income countries might have had of establishing secure domestic manufacturing sectors. So far during the Doha Round, low-income countries have been reluctant to make further concessions on lowering their tariffs on industrial goods although some (like India and Brazil) may be prepared to give ground if high-income countries make concessions on access to their agricultural markets.

Professor Edward Buffie, in his book *Trade Policy in Developing Countries*, gives the following examples of the destruction of African manufacturing after trade liberalisation:[30]

- In Senegal, one third of manufacturing jobs were lost in the early 1990s following liberalisation in the late 1980s;
- In Côte d'Ivoire the chemical, textile, shoe and car-assembly manufacturing sectors nearly completely collapsed after sudden tariff reductions in 1986;
- In Uganda the utilisation of local manufacturing industry capacity dropped to as low as 22 per cent after liberalisation in the 1980s while the importation of consumer goods swallowed nearly half Uganda's foreign exchange;
- In Kenya major contractions occurred in the tobacco, textile, beverage, sugar, leather, cement and glass product industries after trade liberalisation in 1993.

Similarly a 2002 report jointly prepared by the World Bank, non-governmental organisations and various low-income country governments – the Structural Adjustment Participatory Review Initiative – found that in Zimbabwe manufacturing output declined by more than

20 per cent after trade liberalisation, in Bangladesh the manufacturing share of gross domestic product increased only marginally after similar liberalisation, and in Ghana the manufacturing sector showed unimpressive long-term growth after its trade was freed up.[31] The report also said:

> The failure of many local manufacturing firms, particularly innovative, small and medium-sized ones that generate a great deal of employment, is one of the key findings of this study. In several cases, leading manufacturing activities have suffered from indiscriminate import liberalisation, provoking a reduction in output, bankruptcy of enterprises and loss of employment. The decline in domestic manufacturing has followed the flooding of local markets with cheap imports that have displaced local production and goods, and has been exacerbated by the absence of an industrial policy to support domestic firms in dealing with new conditions or with shocks in international markets.[32]

Another cluster of trade issues of concern to low-income countries involves the abuse by high-income countries of WTO measures designed to stop unfair trade practices. These include anti-dumping and special safeguard measures. Low-income countries are often plagued with anti-dumping actions initiated by high-income countries who accuse them of exporting products at marked-down prices but who in reality are using the measures as another form of protectionism. Between 1995 and 1999, anti-dumping investigations by the WTO increased significantly with most of the cases initiated by high-income countries against low-income ones.[33] A recent anti-dumping action involved shrimps imported into the US. All shrimps brought into the US have tariffs applied to them but in February 2004 the US International Trade Commission found that shrimp fishermen in Thailand, China, Vietnam, India, Ecuador and Brazil were unfairly injuring the US shrimp industry through dumping and backed a move for increased tariffs.[34] But while high-income countries complain about low-income country dumping they are all too happy to indulge in dumping themselves. The United States currently spends nearly US$5 billion per year on the subsidisation of its cotton exports which has seen its share of the world cotton export market rise from 24 per cent in 1996 to 42 per cent in 2004 and which has driven down the price of cotton from USc93 per pound in 1995 to USc37 per pound today.[35] Oxfam estimates this US dumping resulted in trade losses of US$400 million between 2001 and 2003.[36]

Anti-dumping issues aren't confined to agriculture: they often involve base metals (principally steelmaking), chemicals, machinery and electrical equipment and plastics.[37] Anti-dumping measures were the most popular issue of dispute taken to the WTO by low-income countries between January 1996 and September 2002.[38] Similarly, a trade device called special safeguard measures – designed for the protection of domestic farm producers – has also been designed in a way that makes these measures much more available to high-income countries, with the result that by mid-2004 some 38 high-income countries had used them but only 22 low-income countries had done so.[39]

A final cluster of low-income-country trade grievances about high-income countries concerns the ability of low-income countries to participate effectively in WTO disputes and negotiations. WTO trade disputes are very expensive to mount, often taking over two years and involving the engagement of expensive trade lawyers. The cost of these challenges is frequently beyond the reach of many low-income countries with the result, as previously mentioned, that no least-developed country has ever mounted a WTO dispute challenge. Many low-income countries cannot afford to maintain permanent representatives at the WTO headquarters in Geneva, let alone to send large delegations to major WTO meetings as high-income countries always do. In 2000 some 26 low-income countries were unable to afford to have any permanent staff at the WTO headquarters in Geneva and serviced it from other missions or embassies throughout Europe while a further seven periodically sent representatives from their home capitals.[40] Of the 29 least-developed countries that are WTO members, only 12 had permanent staff at the headquarters.[41] This means that many very poor low-income countries simply can not exercise all their rights as WTO members.

The myth of low-income country manufacturing export growth

Trade statistics suggest that low-income countries have recently enjoyed huge growth in manufacturing exports. In 1980 low-income countries had only a 11 per cent share of the world export market for manufactured goods but by 2000 they had 27 per cent.[42] In 1980 manufactured goods accounted for just 29 per cent of all low-income-country exports but by 2000 they accounted for 73 per cent – a fraction not that dissimilar to that of high-income countries.[43] The big problem with these statistics, however, is that while the low-income country share of world manufactured exports increased by 145 per cent over the twenty-year period, between 1980 and 1997 the low-income country share of world manufacturing value-adding increased by only 41 per cent (from 17 per cent to 24 per cent).[44] This means that low-income countries are doing the labour-intensive/low-skill end of global manufacturing while the less-labour-intensive/high-skill end is being kept in high-income countries. This echoes the eighteenth-century move by the British to relocate the value-adding end of cotton production from India to Britain – nothing has changed. Much of the low-value-adding manufacturing in low-income countries is the result of new 'client state' investment made by Western Europe, Japan and the United States over the past two decades to take advantage of the low wages in the neighbouring countries of Eastern Europe, Eastern Asia and Mexico (see Chapter 3). This new client state relationship is now a powerful driver of global trade relations between many high- and low-income countries. Some low-income countries have even experienced a decline in their share of export manufacturing value-adding despite large increases in their share of the overall export manufacturing market. Between 1980 and 1997, Mexico's share of world manufactured exports rose tenfold but its share of manufacturing value-adding fell by more than a third.[45] The only region of low-income countries that has managed to increase significantly its share of global export manufacturing value-adding is Eastern Asia. Most low-income countries have a comparative trade advantage in low-cost raw

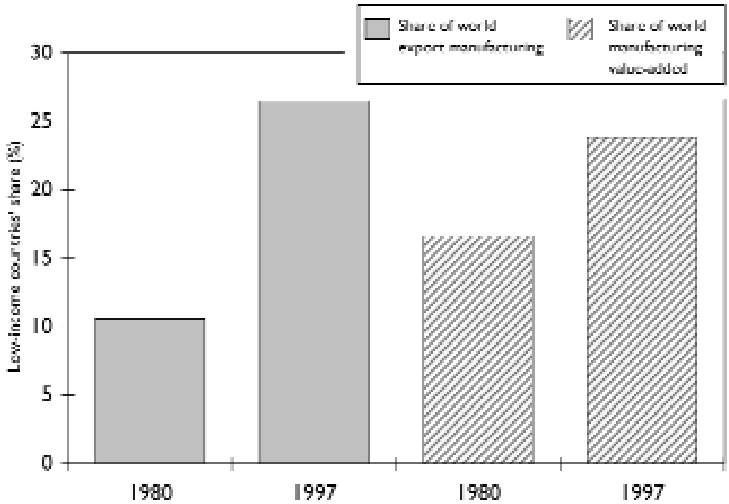

Figure 4.2 Low-income countries' share of world export manufacturing compared with their world manufacturing value-added, 1980 and 1997

Source: Yilmaz Ayuz, *Developing Countries and World Trade: Performance and Prospects,* Zed Books, London, 2003, p. 45.

materials and low-cost labour – if trade is to help them grow richer they need to trade beyond these narrow areas of advantage but the patterns of modern-day export manufacturing do not suggest that many will be able to soon.

Historically today's low-income countries have not always existed on the margins of global manufacturing as they do today. Economic historian Paul Bairoch claims that in 1750 today's low-income countries (mainly China and India) accounted for 73 per cent of world manufacturing (both traded and non-traded) and by 1830 they were still accounting for over 60 per cent but by the start of the First World War their share had fallen to just 8 per cent.[46]

Transnational corporations (TNCs) must shoulder much of the responsibility for low-income countries getting such a bad deal in

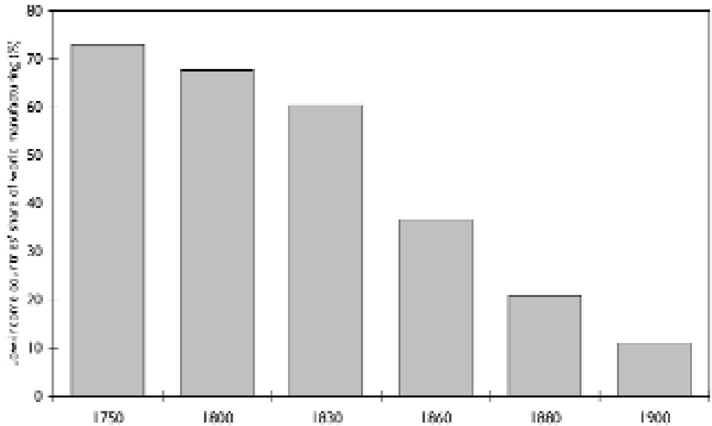

Figure 4.3 Low-income countries' share of world manufacturing output, 1750 to 1900

Source: P. Bairoch, 'International Industrialisation Levels from 1750 to 1980', *Journal of European Economic History*, No. 11, 1982, pp. 294 and 296.

today's global manufacturing. A large proportion of the trade in manufactured goods is controlled by TNCs, particularly those products with the most consistent export growth. TNCs like to site the labour-intensive part of their manufacturing networks in low-income countries that have low wages and low infrastructure costs and that are located close to high-income markets. But they like to keep the less-labour-intensive/high-value-adding part of their networks in high-income countries and they like to keep the knowledge and understanding of their processes to themselves (which the TRIMS agreement allows them to do). This means the labour-intensive part of the manufacture of goods consumed in the European Union is done in Eastern Europe while the value-adding is done in Western Europe and manufactured goods bought in the United States have the labour-intensive parts done in Mexico while the value-adding is done in the US itself etcetera. Low-income countries act as cheap, outlying manufacturing 'feeder' locations for TNCs while the real economic activity continues to be done in high-income countries.

Another significant influence on the manufacturing trading patterns of low-income countries is high-income country preferential trade agreements whereby high-income countries extend special trade access to selected low-income countries. These include the Cotonou agreement between the EU and some African, Caribbean and Pacific countries. The net effect of such agreements is that the low-income countries involved are able to gain significant shares of EU markets, like the clothing market, at the expense of other low-income countries that don't have preferential trade agreements but which have a more competitive edge in clothing.[47] When it comes to penetrating the US market, however, because those countries don't have preferential trade agreements with the US they are unable to gain much market access.

There are two major concerns associated with the concentration of low-income-country export manufacturing at the low-value-added end of the production chain. One is that low-income countries compete amongst themselves for shares of that type of manufacturing and often try and undercut each other, thereby collectively lowering their wage levels etcetera. There is intense competition amongst low-income countries for clothing exports, for instance, with countries such as China, Mexico and Turkey significantly increasing their market share since the 1980s at the expense of Southern Asian countries such as Bangladesh, Pakistan and Sri Lanka.[48] The other major concern is that, as happened with raw materials, low-income countries could end up flooding the global market with low-value-added/labour-intensive manufactured products which could drive down their price (a phenomenon known as 'the fallacy of composition', meaning that what is in an individual's interest isn't necessarily in a group's interest). There is evidence that this is already happening. A study of the (relatively early) period of 1970 to 1987 found that the terms of trade of manufactured exports from low-income countries fell by an average of 1 per cent per year relative to the price of high-income country manufactured exports.[49] Some argue that if you take non-ferrous metals out of the definition of low-income country manufactured exports there is no evidence of declining prices, but other studies have shown clear evidence of a decline since 1975 even when they are excluded.[50] An UNCTAD study into China's net barter terms of trade in manufactures found a decline of more than 10 per cent over the period 1993 to 2000.[51]

The high-income country policy of keeping most value-adding to themselves applies also to raw materials. Many high-income countries have a policy of 'tariff escalation' that imposes ever-increasing tariffs on raw materials from low-income countries according to how much refinement or value-adding they have had before landing in the relevant high-income country. This creates a significant disincentive against low-income countries processing and value-adding their raw material exports. The EU tariff imposed on imported cocoa beans, for instance, is zero but the tariff for cocoa butter or paste is 9.6 per cent.[52]

Another major concern is that low-income manufactured exports often have high levels of imported componentry and don't necessarily yield significant net balance-of-trade gains. The import content of manufactured exports from low-income countries is high and has been increasing in recent years, particularly in those low-income countries that have significantly liberalised their trade and have become heavily involved in the labour-intensive end of the manufacturing production chain.[53]

Much of the labour-intensive manufacturing performed in low-income countries is performed in export processing zones. These are special zones within low-income countries where government concessions like company tax holidays, the free supply of infrastructure and minimal labour regulation are extended to attract foreign industries. In the past three decades their popularity has exploded – in 1970 export processing zones only existed in ten low-income countries but they hugely increased in number throughout the 1980s with the result that by 1990 at least 63 low-income countries had them.[54]

The problem of low-value-added labour-intensive manufacturing is particularly significant for China. Labour-intensive manufactured exports account for 90 per cent of China's total exports.[55] Although China is currently experiencing high economic growth it has a vulnerable economy. China has a dualistic economy made up of a highly competitive labour-intensive export sector and a relatively uncompetitive government-supported state-owned enterprises sector (which mainly undertakes heavy industrial manufacturing) as well as a large government-subsidised agricultural sector which is also relatively uncompetitive with the rest of the world.[56] Membership of the WTO, and the obligation it brings with it to observe Uruguay and Doha Round agreements, is putting a lot of pressure on China to scale back the subsidies and protection extended to its farming and state-owned enterprise sectors; this could significantly add to the country's unemployment. China's labour-intensive export manufacturing sector won't necessarily absorb the unemployed from those sectors, however, because it is not experiencing any increase in its value-adding and is becoming increasingly focused on areas such as electronics and machinery exports that aren't particularly labour-intensive. About 24 million workers, or approximately 10 per cent of China's urban workforce, lost their jobs in state-owned enterprises and collectives that closed between 1998 and 2002.[57] China has cheap labour costs but it suffers from relatively low productivity which means the country is not necessarily able to develop a competitive edge in a wide range of exported manufactured products, particularly those further up the value-adding chain.[58] Chinese unemployment is already being fed by a large exodus of people from its countryside – exposing itself to the harsh winds of global trade could, eventually, bring a lot of social disruption to China. Income inequality in China is already worse than in India or Indonesia and is nearing the levels of South America.[59]

The free trade experience of Mexico

Mexico is an interesting case study on the effect of free trade on low-income countries. In 1994 it became the first low-income country in the world to enter a free trade pact with a high-income country when it became part of the North American Free Trade Agreement (NAFTA) with the United States and Canada. Given that it signed

NAFTA more than a decade ago, enough time has passed for long-term effects to become apparent.

Before the early 1980s Mexico pursued a policy of import substitution supported by a large public service which for several decades enabled it to significantly reduce poverty[60] but which also left it with a high foreign debt on which it defaulted in 1982 (sparking the start of the Third World debt crisis). The response by the then president, Miguel de la Madrid Hurtado, was to refocus Mexico as an export economy[61]– a strategy that was deepened in the 1990s with the signing of NAFTA. The results of this strategy have been mixed and were comprehensively reviewed by the (US) Carnegie Endowment for International Peace in a report released in 2003.

The Carnegie Endowment found that far from reducing Mexican inequality NAFTA increased it to high levels (in common with much of Latin America) thereby undoing many of the gains of previous decades.[62] While Mexico's inequality increased, its poverty levels have experienced a slight decline during the life of NAFTA, however, but at 31 per cent they remain no lower than they were in the early 1990s immediately before the start of NAFTA (although it should be stressed that the start of NAFTA coincided with a major Mexican currency crisis which significantly increased national poverty).[63] Part of the reason for the lack of any significant progress on inequality or poverty has been the mixed Mexican performance on employment since the start of NAFTA. In overall terms NAFTA has managed to generate no or very few extra jobs in Mexico. About 550,000 more Mexicans now have jobs in the export manufacturing sector (mainly in the so-called *Maquiladora* assembly plants) and a roughly equivalent number of new jobs have been created in the service sector (often low-paid informal-sector jobs) but these gains have been offset by the loss of about 100,000 jobs in the non-export manufacturing sector, which faced stiff competition from US manufactured imports, and by more than a million jobs lost in agriculture, which struggled to survive the competition from cheap subsidised US farm products that flooded on to the Mexican market after NAFTA began.[64] This massive loss of farming jobs defies the conventional wisdom that low-income countries necessarily do well out of farm trade liberalisation and is a salient warning to other low-income countries (and some groups in the global justice/anti-globalisation movement) that put faith in that strategy. Crucially for inequality and poverty performance, the after-inflation value of Mexican wages has actually fallen since the start of NAFTA despite significant increases in national productivity.[65] Much of the fall in real wages was originally a consequence of the currency crisis in the early 1990s but NAFTA has not enabled Mexican workers to convert productivity gains into higher after-inflation wages. The net effect of falling wages and the huge decline in rural employment has been that rural-based Mexicans in particular are now more reliant than ever on remittances from relatives who have moved to other parts of Mexico or the United States and the level of these remittances has reached record levels in the past few years.[66] Unsurprisingly, immigration to the US from Mexico has also increased dramatically in recent years.[67]

Mexico's post-NAFTA overall trade performance also shows mixed results. On the positive side, Mexico has been able to convert a net trade deficit with the US before NAFTA into a net surplus, although most of this is probably not due to NAFTA but to the 1994-95 currency crisis. The overall Mexican trade surplus masks a growing net deficit in agricultural trade with the US, however, which is offset by a surplus in manufactured exports to the US.[68] On the negative side much of Mexico's export manufacturing has become focused on low-skill assembly line manufacturing in which components are imported then assembled then re-exported without a lot of value-adding or high-skilled employment.[69] Another major concern for Mexico relates to increased competition from China for labour-intensive manufactured exports, particularly since China joined the WTO in 2001. In 2003 China took Mexico's spot as the second-largest exporter to the US (after Japan).[70] Yet another significant concern is that while Mexico's trade balance with the US has improved significantly, its overall trade balance has not. In 1992–93 its overall trade deficit was US$17.7 billion but by 1999–2001 its annual trade deficit was scarcely better at US$14.5 billion.[71]

From an environmental point of view the Carnegie Endowment feels that Mexico's membership of NAFTA has not necessarily led to a 'race to the bottom' in its environmental standards but it does believe that the cost of the pollution damage done to the Mexican environment since NAFTA began exceeds the benefits of the developments that caused it and that Mexico's diverse ecosystem is now more at risk than ever from concentrations of nitrogen and other chemicals associated with industrial farming.[72]

Challenges confronting low-income countries' trade

Several trends in world trade patterns pose serious challenges for low-income countries. One is that their share of the world's exports has not increased very much over the past two decades while their share of imports has. In 1980, developing countries were responsible for 29 per cent of the world's exports, and by 2001 that share had only climbed to 32 per cent, but over the same period their share of global imports rose from 23 per cent to 29 per cent.[73] Part of the problem for low-income country exports is that a massive amount of the trade of high-income countries is confined to other high-income countries that are partners in regional free trade agreements – in 2001 some 61 per cent of the total exports of the European Union were exported between different EU countries while in the same year 55 per cent of the exports from the NAFTA countries were to each other.[74] The faster growth of low-income country imports over exports affects their overall trade balance. During the 1970s – when export raw material prices were high – developing countries enjoyed a large trade surplus equal to about 16 per cent of their imports but throughout most of the 1990s developing countries had an overall trade deficit generally equal to between 2 and 7 per cent of their imports.[75] Between 1999 and 2001 developing countries began to enjoy an overall trade surplus again but more than 90 per cent was accounted for by Eastern and Southern Asian developing countries whose combined trade surpluses nearly doubled between 1997–98 and 1998–2001.[76]

Another big problem for low-income countries is that over time they have tended to experience deteriorating terms of trade. The terms of trade of a country is the unit value of its exports compared to the unit value of its imports – improving terms of trade mean a country's unit export prices are improving compared to its import prices (and/or its unit import prices are declining compared to its export prices) and deteriorating terms of trade mean that a country's unit export prices are declining compared to its import prices (and/or its import prices are rising compared to its export prices). Between 1980 and 2000 the terms-of-trade for developed countries improved by 12 per cent while those for developing countries deteriorated by 33 per cent.[77] The developing-country regions that suffered the greatest declines were: North Africa (decline of 34 per cent), West Asia (26 per cent) and South America (33 per cent).[78] The worsening terms of trade for developing countries are partly a consequence of declining unit export prices experienced by low-income countries and partly a result of rising unit import prices. Between 1980 and 2000 the unit export prices of developed economies rose by 13 per cent but for developing countries they fell by 10 per cent.[79] Between 1980 and 2000 the unit prices of imports into developed countries were unchanged but for developing countries they rose by a massive 35 per cent.[80] The developing-country regions that suffered the greatest decline in unit export prices were: North Africa (decline of 15 per cent), Asia-outside-West-Asia (decline of 11 per cent) and America (decline of 21 per cent).[81]

The reasons for the worsening terms-of-trade for developing countries are complex but are largely to do with the ongoing dependence of many low-income countries on raw materials for most of their export income. Over time the export prices of raw materials have declined (the reasons for this are explained in Chapter 8). As the prices of low-income country raw material exports decline their currencies come under strain, often resulting in falling values. Lower currency values mean rising import prices. Amongst other things, worsening terms of trade mean that low-income countries have to export more and more commodities (often raw materials) to pay for the same amount of imports which can have a devastating effect on the environment (see Chapter 6). Quite apart from the politics of global trade the very foundation of global trade is fundamentally flawed and is structurally and systemically tilted against low-income countries.

Some low-income countries have benefited from global trade but most have not. At best low-income countries have gleaned little, if any, benefit from free trade deals like NAFTA, at worst many are falling further and further behind because of free trade and are badly positioned to survive the onslaught of more liberalised global trade.

Notes

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