

PRESS RELEASE

PRESS/113
6 October 1998

"Beyond the Financial Crisis"

Attached is the address by WTO Director-General Renato Ruggiero given on 5 October 1998 in New York to the Council on Foreign Relations.

I

Let me first say how very pleased I am to address this prestigious audience – particularly at such a critical juncture in the world economy. History teaches us that many of mankind's greatest visions were conceived in moments of adversity: From the creation of the post-war system out of the ashes of war, to the European construction, and the collapse of the Berlin Wall – the great lesson of our generation is that imagination and hope have always defeated scepticism. Today we face what President Clinton has described as the most serious economic crisis of the past fifty years. Yet this crisis should also be an occasion for the United States and others to address, not simply the problems of the financial system – which are immediate ones - but the much broader challenges raised by the global technological and economic revolution unfolding around us. It is against this larger canvas that I will make my remarks today.

There are many questions that have been raised - and will continue to be raised – about the current financial crisis. But perhaps the most perplexing question is why is all this happening now - at the very moment when we thought we had found so many answers to the world's problems?

It is almost a decade since the fall of the Berlin Wall: A time when the belief in freedom – free choice, free markets, the free movement of goods, capital and ideas – has made striking advances around the world. When US leadership is almost unchallenged. When the advanced economies are more dynamic than they have been in decades. And when the vast developing world was, until very recently, even more dynamic – growing at an average annual rate of 6 per cent throughout the 1990s. When the economic walls between us are being reduced or eliminated altogether, both multilaterally and in vast regional blocs. And when satellites, computers, and fibre optics are creating the reality of a global electronic village – with enormous potential to widening the circle of modernization to Asia, to Latin America, and to Africa, not just to the fortunate few in the West.

Why, with so much potential to build a better world, are we facing such serious difficulties today? Part of the answer is hubris. The new global economy is not so new that it has escaped from the economic laws of gravity. Business cycles still exist – even in a more exaggerated form because of the velocity of change and the degree of our integration. The market's imperfections - overinvestment, overheating, oversupply - have not disappeared. Rather, they have reappeared on a more global scale. Indeed, one of the biggest casualties of the current crisis is the assumption that global economic progress is inevitable – that we could make the transition from the Cold War era to a new global era painlessly, and with little effort or imagination on our part. We were wrong. This globalizing world is a world of immense promise – but also of immense complexity and difficulty.

Which raises the deeper challenge we face. Never before has technology advanced as rapidly as today - shaping a new global economy in the process. A quarter of global output is now exported – up from just seven per cent in 1950. For the developing countries, this share is even higher, almost forty per cent, reflecting their unprecedented integration into the world economy. Capital moves around the world far faster and in volumes many times greater than ever before – over a trillion dollars in the single day. All of this has produced a more interdependent and open world economy – with new efficiencies, greater wealth, and rising living standards for millions of people. It has also produced new uncertainties, new risks, new challenges.

The question is "have we adapted to this new world?" Have our systems, our policies, our approaches caught up? At the beginning of this century, we built a framework of national institutions and policies to help realize the full potential of freer national markets – banking legislation, competition policy, social welfare, work, health and safety laws. As the logic of globalization unfolds there is a pressing need for similar policies internationally. The problem we face today is that we are trying to

MORE

manage the global economy of the next century, with the institutions and policies of a century that is fading away. The current crisis shows that we can no longer ignore this reality.

II

But this will not be a simple – or painless - task. First, globalization is blurring the distinction between domestic and international issues, redefining – but not cancelling - our traditional notions of sovereignty. As we have seen over the past year, the weakness of national financial systems can now have major repercussions world wide. Yet there is no simple mechanism to reach inside borders to help influence and improve these affairs. And finance is by no means the only policy area where globalization is turning what were once domestic issues into global concerns. Countries have the right to use their resources as they see fit. Yet the by-product can be acid rain, greenhouse gases, or deforestation – which in turn affect the global ecosystem we all share. An even more sensitive example is human rights which many countries view as internal concerns. But this distinction is becoming harder to maintain in a world not only of interconnected global trade, but of global information – where CNN, the Internet, or fax machines effortlessly deliver images and information across borders in ways that profoundly influence how nations perceive one another.

This raises a second challenge of this global age. Trade, investment and technology are linking our world ever-more tightly together - but it remains a world of different systems, different interests and backgrounds, at very different levels of development. At the very time we need greater cooperation and consensus, the international community is no longer a cosy transatlantic club, but a truly global community of interests with dozens of new, active and important players on the world stage – almost all of whom are developing countries or economies in transition. Added to this more complex international environment is the growing leverage of business interests, international investors, and NGOs who are now playing a major role in shaping the transnational relations.

The current crisis is exposing these new complexities - and also the new frictions – of our interdependent world, and raising a whole new set of questions about how to manage them. Can we maintain a stable trading system without a stable financial system? Can we balance the need for sustainable development with the need to provide millions with a decent standard of living? Can we advance shared labour standards among very different economies and societies? Interdependence means that we must find answers to all of these interconnected issues in a more coherent and balanced way. But interdependence also means that there is potential for greater conflict as well as convergence - the ties that bind can also chafe.

This raises a third challenge: Many of the economic, environmental, even social issues we face are increasingly global, but our politics remain national. Our leaders, representatives, and officials are answerable first and foremost to domestic constituencies – whose concerns are still largely domestic. And, for the foreseeable future, the nation-state will remain the only viable and legitimate institution for expressing the democratic will of the people. How to resolve the potential for tension between our growing global interests and responsibilities, and our narrower national concerns? How to mobilize popular support for global objectives, policies and institutions? And, most important, how to avoid a "democratic deficit" – a gap between global policies and the people whose interests they are meant to reflect.

Much of the recent criticism of globalization is irrational or worse. But it is equally true that many of millions our citizens have legitimate concerns about poverty, education and income inequalities, about the health of our planet, about the safety of the food their children eat, or about the basic rights of their fellow men and women. These are very important and complex issues – too complex perhaps to be resolved on CNN or in Internet chat groups, but also too important to be left to international bureaucrats alone.

MORE

This raises a fourth major challenge – the challenge of providing leadership in a global age. The task of mobilizing collective effort and imagination is far from straightforward at a time when we no longer face one common enemy, but thousands of complex problems. The Cold War was not just about the clash of geopolitical interests, but the clash of ideas: democracy against totalitarianism; freedom against state control. But the Cold War "cement" has weakened. Big ideas risk being eclipsed by technical details. Grand alliances are weakened by petty squabbles and rivalries.

Nor have we articulated a clear vision of what a new global order should look like. A half century ago, the statesmen who designed the postwar system – the United Nations, the Bretton Woods system, the GATT – were deeply influenced by the shared "lessons" of history, even if their politics or outlooks differed. All had lived through the economic chaos of the 1930s - when turning inwards had lead directly to the break-down of international trade, the Great Depression, and ultimately to world war. All – including the defeated powers - were agreed that the only route to reconstruction and peace lay with building an entirely new international architecture – one rooted in the values of freedom, openness and interdependence.

The end of the Cold War produced no similar demand for a new international system. On the contrary, the triumph over Soviet communism tended to reinforce the *status quo*. It encouraged the belief that we had reached the "end" of our policy debates – if not the end of History. And that foreign policy could be forgotten in the face of more pressing domestic concerns. The result is a certain sense of paralysis in the face of many of the challenges of globalization - a consciousness of the enormous tasks confronting us, and yet an inability so far to marshal the collective vision and leadership to move forward.

III

Today we face a new reality. If the challenge of the past fifty years was to manage a divided world, the challenge of the future is to manage an interdependent world - and our institutional and mental landscapes must change. Events of the past year, and especially of the past few months, clearly illustrate that the *status quo* is no longer good enough. That in this increasingly globalized and borderless world economy - where trade, investment, technology and information move ever-more instantly and effortlessly across the planet – we cannot rely on our old policy tools and our old approaches. Events are passing us by. Today we need to respond to the challenges before us with the same vision and imagination that inspired the architects of the post-war system over fifty years ago.

What is to be done? Clearly, this is not a moment to set out a blueprint for change. This is the moment to create awareness of need for changes. And, more important, it is a moment to set out a larger vision and goals. Let me sketch a few general outlines of the direction we must take:

First, we must move from a predominantly unilateral leadership to a more collective leadership – and with a more balanced share of responsibility. This does not mean that US leadership is any less important. On the contrary, your leadership is even more essential because what the world is demanding of the United States is much more difficult and more complex. During the Cold War, leadership was about solidarity, discipline, the possibility of force in the common defense of our values. By contrast, leadership in an interdependent world is the art of cooperation and consensus. It is about recognizing that our national interests are increasingly global interests; and that our national security increasingly hinges on the security of others.

Leaders need to explain to their publics that international economic policy is about more than exports and jobs – though these are critically important. It is about managing a more interdependent world. It is about security as well as prosperity. And it is about being active partners in the

MORE

international system and in international organizations. Leaders need to explain one of the contradictions of this globalized era – that it is only by remaining isolated that you surrender your sovereignty.

Second, we can no longer afford to view issues through a narrow, sectoral lens. We need to look at the challenges we face from a broader perspective, and as pieces of a larger, interconnected puzzle. More and more, economic interdependence gives rise to a lengthening list of issues that now cross borders and jurisdiction - from investment and competition policy, to environmental standards, development concerns, the distribution of resources, labour standards, health issues, human rights, and foreign security. More and more, we are dependent on each other's financial stability, economic development, environment security, even political reform.

From this perspective, the present crisis presents an opportunity as well as a danger. It is a danger because in focusing our attention on the immediate need to prevent further contagion in financial markets we risk overlooking the underlying causes of our difficulties - we may miss the forest for the trees. But it can also be an opportunity if it underlines how the current problems we face are really part of a broader, global challenge – and demand equally global solutions. The day after we have restored confidence to global financial markets we will hear even louder voices asking for an appropriate solution to environmental problems, to human rights, to labour standards, to health concerns, to international inequalities, or to world crime and terrorism. All of these voices will be right.

We also need to define a broader forum for the management of these more complex issues. Has the time come, for instance, to build a house for managing environmental issues – in the same way we created the World Trade Organization in 1994 to place international trade on a firm institutional foundation? Should we go beyond this, and create a broader institutional framework to manage all of our interconnected sectoral and regional concerns?

In the post-war era, we built the United Nations, NATO and other arrangements to restore growth, peace and security to a devastated world. In a world where the new risks to international stability come also from financial crises or environmental degradation, should we be thinking about new mechanisms for managing our collective security? I am not convinced there is a need for a new set of international institutions. What is needed is a new shift in focus to the challenges of globalization, and a new commitment to global coherence and rules among existing structures - to reinvent the institutions we already have. What we need is a new transmission line for the political will of our collective leadership.

Which brings me to my third point: That we can only begin to build a truly global system on the basis of a wider consensus. Our success in breaking down the economic barriers between us was the result - not the cause - of a broadening consensus about the value of trade liberalization under shared rules - painstakingly built up over the past fifty years. In the same way, we will only reach global solutions to the many other issues now on the international agenda – the environment, development, labour standards, human rights, health concerns and so forth - by constructing the same kind of consensus from the bottom up. And consensus can only be reached through leadership.

We would be making a profound mistake to pretend that a new global order can somehow be imposed on others - that there is a short-cut to international consensus through pressure or coercion. The only rules which have legitimacy – and therefore are enforceable – are rules which have been agreed by consensus; as we do in the World Trade Organization. Far from weakening the system or slowing it down, I am increasingly convinced that consensus provide the only future foundation for international economic cooperation and progress. Unilateralism will not convince any country of the validity of the values which another asserts. This approach is in fact a sign of weakness not strength. It reflects a basic lack of confidence that one's rights or values can be freely shared by others.

MORE

IV

We hear many critics – in this period of time – of globalization and its role in the present crisis. But globalization is not a policy - to be judged right or wrong. It is a process - driven by the realities of economic and technological change. Two hundred years ago, steam power launched the first industrial revolution. A hundred years later, mass production and mass transport launched a second industrial revolution. Each led to a fundamental change in the organization of production and in the role of governance. Now a revolution in communications and informatics – the digital revolution – is reshaping the global economic landscape in equally powerful ways.

And like previous revolutions, globalization gives rise to its own contradictions - between what we can achieve technologically, and what we can comprehend politically, institutionally, emotionally. We pretend to understand global interdependence, but in some ways public opinion seems more inward-looking than at any time since the 1930. We understand the need for international cooperation and institutions, but we resist interference in domestic affairs. We want the international rule of law, but only if it reflects our rules and our laws. As a result, we find ourselves between two worlds – between the globalized world of tomorrow, and yesterday's world of national interests, conflicts, and perspectives. The Internet exists side-by-side with Kosovo.

These are tensions that only global leadership and global vision can resolve. The choice we face – as the current crisis has so starkly underlined - is between moving forward on the basis of shared rules, or on the basis of power. Between stability or uncertainty. Consensus or conflict. A united future. Or back to our divided past – with all of its conflicts and tragedies.

How we manage the challenges in the months and years ahead will depend on the choices we make today. For in reality, the financial crisis is just the tip of the iceberg. What we need is to improve the management of this new, complex and growing interdependence we call globalization. We need a new vision – to encourage greater participation and responsibility on the part of developing countries, as well as to promote a greater understanding on the part of all of us that the problems we face go well beyond sectorial policies only.

Last week, when I was preparing my speech for this meeting, I read on the same day two articles: One by Jeff Garten in the International Herald Tribune, calling for a Global Bank, and a second in the Economist, discussing the idea of a world currency. I do not want to predict how many years will need to pass before we see a world currency – or if we will ever see one. But what I want to tell you is that to emerge from the current crisis we will need vision, we will need courage, we will need to look beyond the next few weeks or month in front of us – as we did at the end of the war. And more than ever, we will need to build something whose impact goes far beyond our national and regional borders.

I began by saying that our experience of the past fifty years is that vision has always triumphed over scepticism. This has been the case with the fall of the Berlin Wall without a war; or with the European construction – from a devastated and divided continent, to a customs union, then a single market, and now a single currency. This has also been the contribution of this great nation in our own time. Let me say that we will need this same vision again as we seek to build a truly global system – one based on rules and not power. Thank you.

END