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Jacques Delors

Abstract

This speech discusses the future of global free trade, and recommends more international efforts to bolster the multilateral system. The author looks to the European Union as playing a leading role in this effort, not only, as is sometimes claimed, because of its economic weight and its interest in free trade, but primarily because of its identity as an ordered community of nations, representing the very model of balance.

ADDRESS

THE FUTURE OF FREE TRADE IN EUROPE AND THE WORLD

*Jacques Delors**

INTRODUCTION

At the end of World War II, two worlds confronted each other. Not only were they ideological and military rivals, but they espoused two different approaches to achieving prosperity and social progress. One side relied on the dynamic of private enterprise, the other touted the superiority of order imposed from above. We must not forget, however, that each side was drawing its own lessons from the terrible consequences of the economic disasters of the inter-war years, when a forty percent drop in world trade was followed by a twenty percent decline in production.

The memory of these events impresses upon us just how closely the fortunes of free trade remain tied to prospects for peace. The collapse of communism and the arrival of market economies in the countries once under its thrall do not mean the end of history. By the same token, the impressive successes of the free market are no guarantee that its triumph will last.

Over the last quarter of a century, world trade in manufactured goods has increased six hundred percent, while production of the same goods has increased fourfold. This success, however, has required no fewer than three rounds of negotiations on multilateral trade rules, the last of which took eight years to complete.¹ The reality is that, in the global economy of the future, we will continue to enjoy the advantages of free trade only if a major effort is made to bolster the multilateral system.

The World Trade Organization is the starting-point for this process. The European Union (or "Union" or "Community") will play a leading role in this effort, not only, as is sometimes

* Former President of the European Commission. Mr. Delors delivered this Address in Kokkola, Finland, on July 22, 1994, as part of the Chydenius Seminars.

1. General Agreement on Tariffs and Trade: Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, Dec. 15, 1993, 33 I.L.M. 1 (1994).

claimed, because of its economic weight and its interest in free trade, but primarily because of its identity as an ordered community of nations, representing the very model of balance. In this respect, the regionalization of trade in the European Union is not at odds with the emergence of the global economy. On the contrary, it paves the way to a more coherent and more legitimate international order, the advent of which is a precondition for the future of free trade.

I. *THE EUROPEAN UNION IN THE EMERGING GLOBAL ECONOMY*

Observers use different terms, such as internationalization and globalization, to describe the qualitative change in the world economy over the last decade, depending on whether their interest is in markets or in problems caused by the change. For the European Union, the most important factors in this change are the increase in interdependence and the dramatic growth in the number of countries participating in international trade.

A. *Growing Interdependence*

First and foremost, the growth of interdependence must be acknowledged as an inescapable fact. We know that its effect, over time, is to erode the influence of national policies. At the same time, it obscures the boundaries separating the areas of responsibility of international institutions. Trade rules alone can no longer ensure that commerce develops smoothly if other imbalances emerge elsewhere.

Today, the biggest threat to trade development appears to be the failure of international monetary relations. The extreme instability of currencies in the last fifteen years has been largely responsible for the slowdown in the growth of world trade from eight percent in the 1960's to four percent in the 1980's. As we approach the end of the 1990's, the uncontrolled expansion of the financial sector is distorting the relation between real changes in economies and those which merely reflect fluctuations in interest and exchange rates. We should neither be surprised by this development nor resign ourselves to it.

Present international trade rules are primarily concerned with government policies and aimed at securing market access and fair treatment. Trade patterns, however, depend less and

less directly on these policies. Today, it is estimated that more than forty percent of all trade in goods and services is generated by internal operations within multinational firms. Trade flows are increasingly becoming one part, among many, of corporate globalization strategies. Interdependence now encompasses several layers, namely, direct investment (the volume of which grew by thirty percent a year in the 1980's and now accounts for seven percent of world exports), agreements on technological cooperation, and networking between firms capable of striking quick, temporary, and flexible agreements. The growing importance of new information technologies will further speed the process of world economic integration that is turning our planet into one vast village.

B. *An Increasing Number of Protagonists*

In the village itself, the number of houses is constantly growing. While only seventy-four nations took part in the Uruguay Round negotiations of the General Agreement on Tariffs and Trade² ("GATT") when they were launched in September 1986,³ their conclusions are now being implemented by 117 countries.⁴ Along with the many newly-industrializing countries of Latin America and Asia that recently signed the GATT agreements, the new democracies of Central and Eastern Europe have also emerged. Who could have foreseen this development when the GATT negotiations began, and who would have imagined that these young democracies would make such rapid progress?

Three "lost decades" for development have taught us that aid cannot replace trade. How can we now undermine emerging countries' expectations by denying them access to our markets? In this respect, the Union has set an excellent example in its attitude towards the countries of Central and Eastern Europe. Under the "Europe Agreements"⁵ each of these countries is

2. *Id.*

3. See Stuart Auerbach, *Between Debt Crisis, Trade Grows*, WASH. POST, Sept. 28, 1986, at H1 (discussing launch of Uruguay Round negotiations).

4. James Gerstenzang, *Trade Accord Wins Approval of 117 Nations*, L.A. TIMES, Dec. 16, 1993, at A1.

5. See COOPERS & LYBRAND, *TRADE RELATIONS EASTERN EUROPE* § 2.3 (Dec. 27, 1994), available in LEXIS, Eurcom Library, ECNews File (describing scope of "Europe Agreements" between EC and countries of Central and Eastern Europe).

guaranteed the prospect of full free trade with the union.⁶ Moreover, a timetable has been established for the complete abolition of quantitative restrictions and customs tariffs on all trade in manufactured products and services within five years.⁷

C. *A Proper World Trade Organization*

Among the factors requiring a change in the status of GATT were growing interdependence and an increase in the number and diversity of member countries. Thus, the European Union threw all its weight behind the creation of a proper World Trade Organization. Of course, this new organization must put back on the agenda all the points where agreement was not reached in the Uruguay Round. The European Union is keen to see balanced solutions in areas where it has major interests, such as financial services, aeronautics, steel, air and sea transport, and telecommunications. The new World Trade Organization, however, will also have to change the very nature of international trade in two vital areas.

First, it must establish a truly multilateral framework where there can be no individual opt-outs for the most powerful nations. This could be achieved through a new structure centered on a general council, playing a horizontal role and responsible for applying the memorandum on the settlement of disputes. Second, the organization's new status must allow it to work on an equal footing with other multilateral institutions. This will make for better coordination between trade rules and the environmental requirements recognized since the Rio Conference.⁸ Equally urgent is the need to consider the links between fair trade, rules on direct investment, competition policies, and the social dimension of development. I wish to lay special emphasis on the social dimension, because this is the issue most hotly disputed by the orthodox advocates of free trade.

6. *Id.*

7. *See id.* § 2.4 (discussing abolition of EC customs duties and quantitative restrictions on Eastern and Central European goods).

8. *See* Edith Brown Weiss, *Introductory Note*, 31 I.L.M. 814 (1992) (giving overview of United Nations Conference on Environment and Development held in Rio de Janeiro, Brazil, in 1992). The conference, attended by representatives of over 170 countries, attempted to deal with the global challenge of achieving decent living conditions for all people without destroying the natural foundations of life on Earth. *Id.*

D. *Social Policy*

The European Union views the social dimension as a vital part of development and will seek to convince the international community of its importance. As a result of the mobility of capital, however, the social dimension is being jeopardized by competition between the social systems of different states. Can we really expect this worldwide competition to define the best social system? The Union does not resign itself to such a cynical socially-detrimental view. It believes that the World Trade Organization must tackle this question by taking a dispassionate approach. In my view, this means drawing distinctions between three different areas.

First, fundamental employment rights already recognized by the international community must be promoted. Enshrining these rights in international trade laws would be a significant step. Child labor and forced prison labor should be abolished. According to the United Nations, some 16 to 20 million people are subjected to forced labor and between 100 and 200 million children are exploited worldwide.⁹ Second, other provisions covered by existing International Labor Organization conventions must be examined and implemented, in particular workers' right to representation. Finally, wage levels and social protections must be considered a part of comparative national advantage.

II. *THE EUROPEAN UNION: AN ORDERED COMMUNITY OF NATIONS*

There is no contradiction between economic and social considerations, as can be seen from the experience of the European Economic Community ("EEC") between 1957 and 1992. At first, the EEC was part of an economic project, the scheme to set up the "common market." To see the project through and complete the single market, as it did in 1992, however, the Community needed to become more than just a free-trade area. It had to turn itself into an "economic and social area," enhancing

9. See generally Jim Wolf, *Tens of Millions Reported Enslaved Worldwide*, Reuter Library Rep., Mar. 8, 1993, available in LEXIS, News Library, Reuters File (reporting that tens of millions of adults and children remain enslaved throughout world); see also M. Cherif Bassiouni, *Enslavement as an International Crime*, 23 N.Y.U. J. INT'L L. & POL. 445 (1991) (providing international history of laws against slavery and forced labor).

its unique position as world trade became increasingly globalized.

That the single market was completed against a background of globalization is a testament to the European Union's openness and its contribution to the huge expansion of world trade. Nevertheless, we heard a clamor of protest about "Fortress Europe." The facts, however, give the lie to these suspicions, which were not always voiced with good intent.

The European Union is the world's largest trading bloc, accounting for 24% of global imports, compared with 20% for the United States and 9% for Japan. Furthermore, it is the most open to international trade; the value of its imports amounts to 8.5% of its Gross National Product, against 7.5% and 6% for the United States and Japan respectively. How was the Union able to contribute so much to the expansion of world trade?

Not all the credit can go to harmonization of technical standards. The completion of the single market is the culmination of a concerted and determined effort, and is a testament to the political will of the Member States. These countries work together in common institutions reflecting two beliefs underlying European society.

First, is the belief that the market cannot develop without a framework of rules. The creation of the single market was a formidable task requiring quite considerable political will on the part of the Member States. Great reforms, sometimes revolutionary reforms, had to be undertaken to build up the necessary body of community laws and regulations.

For example, radical reform of our value-added tax systems was needed to ensure that trucks could drive across borders without stopping.¹⁰ All exchange and investment controls were scrapped so that capital could flow to where it would do most good.¹¹ A system of mutual recognition of professional qualifications was devised to allow professionals to set up wherever they

10. See Joel Havemann, *EC '92: A Report on Rules, Regulations*, L.A. TIMES, July 9, 1991, at 4 (discussing value-added tax reform and removal of barriers to movement of people, goods, and services in EC); *A Singular Market*, ECONOMIST, Oct. 22, 1994, at 10 (noting that people can now cross borders between Member States unhindered by customs officials and border police).

11. See *Because it Works*, ECONOMIST, July 11, 1992, at 9 (discussing European Community's elimination of exchange controls to facilitate free flow of capital).

wanted.¹² From public procurement to standardization and banking laws, all the rules and customs determining the shape of the European economy were revised in the enormous "single market" project.

Second, is the belief that there can be no market without rules, and no competition without paying greater attention to cooperation and solidarity. The Single European Act,¹³ the blueprint for the single market, provides more than just a single liberalization mechanism. It also introduces four major common flanking policies.¹⁴ Some illustrate the need for cooperation, as with macro-economic convergence and public research policy.¹⁵ Others illustrate the Union's resolve to struggle for equality of opportunity in the single market by fostering economic and social cohesion between the regions and emphasizing the social dimension of the internal market in business and industry.¹⁶

In the traditional European view, trade, competition, and competitiveness are merely means, not ends in themselves. They are part of a value system in which well-being is more than simply the sum of people's individual consumption. The involvement of each individual in society, equality of opportunity, sound planning, and respect for the natural environment all take precedence over the organization of the market. For example, I would like to ask the Finns in this audience if they think that uncompetitive agriculture should be eliminated in the interests of free trade? Should agricultural policy focus solely on criteria with a measurable market value, or should it also be used to help people stay on the land and to safeguard our rural development and our heritage?

In order to achieve balance in the process of European integration, it was essential to try to serve the general interest of the Community at all times. This would not have been possible with-

12. *See, e.g.*, Directive on Mutual Recognition of Higher Education Diplomas, O.J. L 19/16 (1989) (providing general system for recognition of higher education diplomas).

13. Single European Act, O.J. L 169/1 (1987), [1987] 2 C.M.L.R. 741 (amending Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11, 1973 Gr. Brit. T.S. No. 1 (Cmd. 5179-II), in TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES (EC Off'l Pub. Off. 1987)).

14. *Id.* arts. 13-25.

15. *Id.* arts. 23-24.

16. *Id.* arts. 13-23.

out a strong and independent European Commission. I say this even though it has become fashionable to criticize the Commission. We must ask whether the criticisms of its efficiency, innovative ability, and capacity to take action are justified.

These questions led the Community to publish its White Paper on Growth, Competitiveness and Employment ("White Paper") in December 1993.¹⁷ The heads of state and government of the Member States met for a discussion, lasting several hours, on Europe's unemployment problem and the risks of declining competitiveness.¹⁸ They sought to respond with long term structural ideas, tackling the new challenges of the twenty-first century. So they adopted, at the national level, a coherent framework for reform of employment systems.¹⁹ At the European level, they wished to promote two development-oriented innovations: trans-European infrastructure networks and the information society.²⁰

The idea behind the reform program is the same: we cannot neglect openness and competitiveness. We must find new ways to become competitive while simultaneously demonstrating greater solidarity with the long-term unemployed and the socially excluded. In other words, we must provide everyone with a chance to work because, and it cannot be repeated often enough, our most precious resource is our people.

III. GLOBALIZATION AND REGIONALIZATION

The European Union's contribution to world trade goes well beyond the merely economic. The Union wants the opening of economies to be accompanied by a wider project for civilization. The Union's appeal to its near neighbors, both in the north of Europe, and in Central and Eastern Europe, is not sim-

17. COM (93) 700 Final (Dec. 1993) [hereinafter White Paper]; see Lionel Barber & Andrew Hill, *EU Ministers to Press Ahead with 'Action Plan' on Jobs*, FIN. TIMES, Dec. 13, 1993, at 22 (reporting EC leaders' adoption of White Paper).

18. See David Gardner, *Delors Fights Work Deregulation: Brussels Believes Unemployed Cannot be 'Priced into Jobs'*, FIN. TIMES, Dec. 8, 1993, at 24 (discussing European economic competitiveness, wages, welfare, and other issues on agenda of summit of EC leaders in Brussels, Belgium on December 10-11, 1993).

19. See Patrick Smyth, *Serving up a Take Away Menu for All Tastes*, IR. TIMES, Dec. 9, 1994, at 12 (discussing White Paper's approach to labor market problems).

20. See Barber & Hill, *supra* note 17 (reporting action taken by EC leaders after December 1993 summit in Brussels, Belgium, to implement White Paper's proposed trans-European transport, energy, and telecommunications networks).

ply a matter of economics, but is also connected, I am sure, with the models of society and the essence of democracy, which, after all, define our common identity. It reflects a desire to preserve the European ethos, our common heritage, which has been forged by historical events.

The European Union demonstrates that being part of a world trade network does not require abandoning cultural roots. The global economy can develop hand in hand with mutual respect for civilizations, if that is what we want. The important message that Europeans can communicate to other parts of the world today is not to imitate Europe, but rather to find in their own efforts at regional organization a reason for believing in a united world where diversity is respected.

A. *There Is No Contradiction Between Regionalization and Globalization*

First, as the European Union demonstrates, there is no contradiction between the regionalization and the globalization of trade. On the contrary, I firmly believe that progress towards greater global economic integration requires the creation of intermediate regional blocs. This is how I interpret the emergence of new groupings outside of Europe, such as the North American Free Trade Agreement²¹ and MERCOSUR²² on the American continent, and ASEAN²³ and APEC²⁴ in South-East Asia and the Pacific Rim.

When economies become intertwined, their operating rules need to be harmonized too, and this is more easily achieved by regional groupings than by a centralized worldwide process. The European Union has already gone a long way down this

21. See North American Free Trade Agreement, Dec. 17, 1992, 32 I.L.M. 296 (entered into force Jan. 1, 1994).

22. See Argentina-Brazil-Paraguay-Uruguay: Treaty Establishing a Common Market, Mar. 26, 1991, 30 I.L.M. 1041.

23. See Association of Southeast Asian Nations Declaration, Aug. 8, 1967, 6 I.L.M. 1233. The Association of Southeast Asian Nations provides a skeletal economic structure for its members: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Brunei. John H. Barton & Barry E. Carter, *International Law and Institutions for a New Age*, 81 GEO. L.J. 535, 551 & n.42 (1993).

24. See Barton & Carter, *supra* note 23, at 551-52 & n.43 (explaining that Asia-Pacific Economic Cooperation was formed in November 1989 and consists of all six ASEAN members, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Brunei, along with Australia, Canada, China, Hong Kong, Japan, South Korea, New Zealand, Taiwan, and United States).

road and offers a useful example of how to draw up supranational rules through the democratic process. In competition policy, state aid restrictions, transfrontier waste shipment, and mutual recognition of national standards, the European Union is a valuable laboratory for experiments in sovereignty pooling.

B. *Towards the Worldwide Application of Subsidiarity*

Secondly, we now see emerging the outline of what I would call a form of worldwide subsidiarity. Regional groupings of varying composition and status are making breakthroughs towards concerted control of the various layers of interdependence. Multilateral world organizations must ensure that these breakthroughs respect common principles and are not achieved at the expense of non-member countries.

Eventually this kind of subsidiarity will surely culminate in a more legitimate, coherent form. I am convinced that the success of free trade on a worldwide scale can be maintained only by going one step further. What is needed is a new qualitative advance by the institutions that were behind this great step forward. I believe that legitimacy and coherence should be the objectives of today's system of multilateral relations. We will need to think carefully and renew our efforts if we are to achieve these goals as we mark the fiftieth anniversary of the creation of the great institutions that emerged from Bretton Woods.²⁵

I have already raised the issue of coherence when speaking of the new global interdependence, but the lack of legitimacy is no less striking. For how long can the ten percent of the world's population who account for a large, albeit diminishing, proportion of its wealth unilaterally determine the rules of the game? Is it not time for us to demonstrate wisdom and foresight? It was in this spirit that I recently proposed considering ways and means of setting up a worldwide economic security council. Its task would be to provide a long-term frame of reference for policies fostering sustainable economic development. At the same time, it would monitor the general state of the world economy

25. See *Is the World Economy All but Lost in the Bretton Woods?*, L.A. TIMES, Dec. 18, 1994, at 4. "In 1944, representatives of 44 nations gathered in the New Hampshire town of Bretton Woods and set rules of conduct related to exchange rates and international payments. With that, two extraordinarily influential institutions - the World Bank and the International Monetary Fund - were born." *Id.*

and the interaction between various elements such as currencies, trade, financial flows, the social dimension, and the environment. Moreover, it would have the task of ensuring consistency between the goals pursued by the various multilateral institutions and between their means of action.

To be effective, a council of this kind would have only fifteen members or so. Its membership, however, would have to be sufficiently broad to ensure balanced representation for the major economic powers and all the regions of the world. Of course, the regional economic groupings and the Secretary-General of the United Nations would be involved. Furthermore, the heads of the major institutions that emerged from Bretton Woods, the World Trade Organization, the International Monetary Fund, the International Labor Organization, and a world environmental agency, if one is established, would have to be fully involved in considering, discussing, and implementing the guidelines.

In this way, perhaps, in the changing world we live in, we would be faithful to the pioneering spirit that created a new world order in the wake of the Second World War, an order based on trade and respect for the rules of the game in the service of peace. In truth, this pioneering spirit, this effort to order and govern economic relations, is part and parcel of human history.

CONCLUSION

The challenges we face today are global challenges. All our experience shows that trade development, although increasing prosperity, also increases instability by endlessly eroding the foundations and values of the original structures set up to channel that trade. Ordering the world, what is sometimes termed "global governance," cannot be reduced to governing things. There is no evading the need for face-to-face dialogue between nations and the groupings to which they belong and from which they draw their identity. There is no evading politics.