

# Free trade and the global economy

## INTERVIEW WITH PETER SUTHERLAND

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**PETER SUTHERLAND** is Chairman of BP plc since 1997 and Chairman of Goldman Sachs International since 1995. He graduated in Civil Law from University College Dublin and was accepted to the bar at the King's Inns. He was admitted to practice before the Supreme Court of the USA. He served as Attorney General of Ireland (1981-84), EC Commissioner responsible for Competition Policy (1985-89), Chairman of Allied Irish Banks (1989-93), and Director General of GATT and subsequently the WTO on its creation (1993-95). He has received many decorations including an honorary knighthood (UK 2004) and 14 honorary doctorates.

### Can global free trade ever benefit both the developing and developed worlds equally?

Well over a billion people have been lifted out of poverty globally in the last ten years, out of a total population of just over five billion. That's never happened before in the history of mankind and it has come about, primarily in Asia, as a benefit of globalisation and free trade. As for those who have not been beneficiaries of global trade, it is not that global trade agreements are negatively affecting them, it is that globalisation is passing them by. Why? Because they neither have the physical nor the human infrastructure, in terms of education and so on, to enable them to be part of it. After all globalisation really is, and should be, about opportunity. Trade is only one part of it. The issue of uplifting the most impoverished countries in the world will always require a combination of different factors to take place. The primary factor is often purely internal, and involves good governance and the absence of corruption. The second is properly using, indeed the developed world increasing, the resources that are made available through multilateral agencies and aid packages, whether it be from the World Bank or other institutions, bilateral aid, or voluntary charitable aid.

### What, in your view, are the key failure points which have prevented the completion of the Doha development round, and how concerned are you about the prognosis?

At this stage I have to say I am pessimistic, but I hope I am wrong. Everybody recognises that it was going to be particularly difficult to conclude an agreement in a period directly leading up to the US Presidential Election. The failure point, as always, is primarily agriculture.

Agriculture is a relatively minor part of world trade especially as far as the developed countries are concerned and it is an indictment of the major players that the means to make the necessary compromises on this issue has not been found. It is also true to say that the developing economies have been reluctant to compromise on non-agricultural market access and service negotiations, which are behind the agricultural issues but progress in which would assist in finding a consensus on agriculture. Should the Doha round result in failure, or a prolonged period in hibernation, we are facing a major problem in terms of the WTO's credibility. Certainly, there will be an increased tendency to focus on bilateral agreements, which I

do not believe provide the same security for global trade and which will create difficulties in terms of the mixed bag of access arrangements that will follow, particularly for small and medium sized industries. Such agreements do not provide the same security or have the same authority as the WTO, which in effect provides a quasi-judicial mechanism for adjudicating on disputes with global authority. Whereas with most bilateral arrangements, particularly between the developed and the developing countries, the cards are stacked in favour of the developed countries because of their enhanced power of negotiation, and the absence of a credible adjudication mechanism. The developed countries will also lose out because the WTO, which has been used so successfully as a vehicle, for example, to integrate China into the global economy, will be undermined. Those of us who believe in a multilateral approach being the only one that can accommodate the changes of globalisation, and which provides a fall-back discipline which participants will not breach, are very worried about the current state of affairs.

A failure of the global multilateral system in terms of delivering the Doha round is also bad news at a time when global growth is forecast to be in the order of 3.6 per cent, but which some suggest may turn out to be lower. One way or the other recession, or reduced growth, is often the harbinger of protectionism. We are already hearing in the US elections signs and sounds of what some might describe as protectionism, and we know that Europe is only too willing, in some quarters at least, to adopt the same sort of rhetoric in terms of protecting national champions and the like.

### What should we fear most about protectionism?

One hopes that the experience of the past, particularly periods such as the 1930s, will help us to avoid the worst excesses of protectionism. I think one must always be on one's guard about this, as well as about intra-governmental tensions which damage commerce. I believe in the necessity of cross-border investment.

I believe that sovereign funds, as an example, should be given the maximum degree of freedom, subject to transparency, competition rules and limitations where real national security issues are at stake, to invest across borders. When the financial services sector needed that investment in recent times, from China and elsewhere, people were only too happy to take it, and that is the way it should be.

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**Do national governments ultimately have to relinquish sovereignty in order for multilateral mechanisms to work?**

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The most advanced form of international co-operation known to man is the European Union, and the essence of the EU is the sharing of sovereignty. What that means in practice is that laws can be made in defined circumstances against the opposition of a particular country. It also means that individuals or countries can go to a European court of justice and have an adjudication against their own government, or between governments, which will be enforced by the national courts. Such sharing of sovereignty, taken to its extreme in the areas that it covers, is the best way multilateralism can work. It is the greatest achievement in political organisation the world has ever known.

Outside this you have other forms of multilateralism. The WTO is in itself an innovative form of multilateralism because of its dispute settlement mechanism, with an independent court which cannot be veto'ed and can adjudicate rights between countries in a trade dispute. The difference between that and the sharing of sovereignty in the EU is that rulings cannot be enforced through national courts. If countries do not comply with it, the entire system totally loses its credibility.

So, multilateralism and sovereignty are absolutely two sides of one coin. The Americans have always had a problem with sharing sovereignty. Perhaps that is because it is inevitable that the most powerful country in the world will not like to submit itself in any way to any external and binding adjudication. There is no doubt that the Europeans, because of their experience within the EU, are much more comfortable with binding multilateral agreements than the United States is. I have always believed, perhaps because I come from a legal and constitutional background, having been Attorney General in a country with a written constitution, that institutions and law are ultimately necessary for international co-operation. Otherwise one is often engaging in talking shops that do not work. For me at least, the transition between applying competition law in the EU and being involved in the creation of the WTO was a direct line in terms of developing approaches to mitigating national sovereignty, to saying there are limits on national sovereignty which we should agree to. I think that is the big debate of our time, but it is more difficult to advance this debate at a time of poverty and recession.

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**What are the implications of globalisation in terms of movement of labour and economic migration?**

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The most under-developed aspect of globalisation is the movement of people. Now we have an entirely different situation and a more challenging one. Within Europe we have the movement that has come about from the

accession of the new central European member states, which has not proved yet to be of great difficulty. There appears to be a more difficult issue in the United States currently with the Hispanic migration and in Europe with the North African migration. In France the creation of a Ministry of National Identity, the increasing talk about tests for citizenship in European countries generally and the focus on border controls all seem to take up a greater proportion of popular discourse in regard to migration than the enormous positive advantages that this movement of people actually brings. The reality is that we probably need four to five times as many migrants into the European Union from outside the EU per annum by 2030 to keep the same number of people in employment that we have today. So there is a demographic challenge which we are unwilling, in some instances, to take on because of a sense of our own homogeneity as peoples. Nationalism, which is a fairly modern phenomenon, is something which we are going to have to adapt. We will have to come to accept that there can be nationals of our own countries with different colours and different religions. I do not know that we are making enough efforts to do that. The debate in the US and Europe has been mostly about border controls, but a somewhat more progressive attitude is needed without saying that we should simply open up doors without any restriction because that might precipitate such a large scale immediate problem that it could result in a sudden change of attitude, such as that which we saw, for example, in recent times in Holland.

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**Does a free market global economy require regulation by governments to ensure fair distribution of wealth?**

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Well, it is regulated in the sense that the disbursement of profits is determined by the amount of tax that you have to pay, so different countries have different tax systems. I do not fall into the camp that says that low tax necessarily means greater growth. For example, there is a reasonably high level of tax in Denmark, and Denmark is one of the three or four wealthiest countries in Europe. You can have different types of reward systems and still have growth. A system is required that maintains and develops competition. That means that governments should not interfere in a way that excludes competition or protects national champions, or for that matter, individuals. One of the problems holding back many of the developing countries has been that they have maintained cosy cartels and yet at the same time parade themselves, often with the support of some NGOs, as being the defenders of equality, by virtue of the fact that they are defending the poor industries in their own country against global multinational corporations who are deemed as foreign predators. In fact, all they are often doing is maintaining inefficiency, costing their own consumers more and damaging their economic development. **F**

**Should the Doha round result in failure we are facing a major problem in terms of the WTO's credibility**