



WORLD TRADE
ORGANIZATION

CHECK AGAINST DELIVERY

OXFORD MARTIN SCHOOL
OXFORD UNIVERSITY

"Local governments, global governance"

OXFORD

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Pascal Lamy
Director-General

Lord Patten of Barnes, Dear Chris,

Professor Goldin, Dear Ian,

Ladies and gentlemen,

It gives me great pleasure to be in Oxford today to share my views on global governance, an issue on which the Martin School is very active. Tackling global future challenges is, I understand, one of the main focuses of your work. It is also one of the main challenges of our time.

We live in a world of ever-growing interdependence and interconnectedness. Our interdependence has grown beyond anyone's imagination in fact! Economic and financial shocks spread faster than ever before. With the recent economic crisis we discovered that the collapse of one part of an economy can trigger a chain-reaction across the globe. With the climate crisis, that our planet is an indivisible whole. With the food crisis, that we are dependent on each other's production and policies to feed ourselves. And with the flu epidemic, that speedy international cooperation is vital. The scope of the challenges the world is facing has changed profoundly in the past decades — more profoundly, I suspect, than we fully understand. The world of today is virtually unrecognizable from the world in which we lived one generation ago.

Just look at the way trade is taking place. Thanks to lower transport prices, communications and information technologies, it now costs less to ship a container from Marseille to Shanghai than to move it across Europe. Production chains have become truly global, with companies locating various stages of the production process in the most cost-efficient markets. The most striking example of this globalization of the production chains is Apple, whose famous iPod is designed in the United States, manufactured with components from Japan, Korea and several other Asian countries, and assembled in China by a company from Chinese Taipei. Nowadays, most products are not “Made in the UK” or “Made in France”; they are in fact “Made in the World”.

Over the past 70 years we have constructed the legal and institutional framework to manage closer economic integration at the regional and global level. And, of course, the WTO is one part of this scheme with responsibility for the governance of international trade relations.

Yet, with the world becoming ever more interconnected and challenges become truly global, governance remains to a large extent local. The discrepancy between the reality of today's interdependence, the challenges

resulting from it, and the capacity of governments to agree politically on how to deal with them is striking.

For the international system is founded on the principle and politics of national sovereignty: the Westphalian order of 1648 remains very much alive in the international architecture today. In the absence of a truly global government, global governance results from the action of sovereign States. It is international. Between nations. In other words, global governance is the globalization of local governance.

But it does not suffice to establish informal groupings or specialized international organizations, each of them being "Member driven", to ensure a coherent and efficient approach to address the global problems of our time. In fact, the Westphalian order is a challenge in itself. The recent crisis has demonstrated it brutally. Local politics has taken the upper hand over addressing global issues. Governments are too busy dealing with domestic issues to dedicate sufficient attention and energy to multilateral negotiations, be they trade negotiations or climate negotiations.

I see four main challenges for global governance today.

The first one is leadership, i.e. the capacity to embody a vision and inspire action, in order to create momentum. Who is the leader? Should it be a superpower? A group of national leaders? Selected by whom? Or should it be an international organization?

The second one is efficiency, i.e. the capacity to mobilize resources, to solve the problems in the international sphere, to bring about concrete and visible results for the benefit of the people. The main challenge here is that the Westphalian order gives a premium to "naysayers" who can block decisions, thereby impeding results. The ensuing viscosity of international decision-making puts into question the efficiency of the international system.

The third one is coherence, for the international system is based on specialization. Each international organization focuses on a limited number of issues. The World Trade Organisation deals with trade, the International Labour Organisation with labour issues, the World Meteorological Organisation with meteorology and so the list continues. It is a fact: the UN is not really overarching, assuming this was the initial intention.

The last challenge that I see is that of legitimacy - for legitimacy is intrinsically linked to proximity, to a sense of "togetherness". By togetherness, I mean the shared feeling of belonging to a community. This feeling, which is generally strong at the local level, tends to weaken significantly as distance to power systems grows. It finds its roots in common myths, a common history, and a collective cultural heritage. It is no surprise that taxation and redistribution policies remain mostly local!

There is one place where attempts to deal with these challenges have been made and where new forms of governance have been tested for the last 60 years: in Europe. The European construction is the most ambitious experiment in supranational governance ever attempted up to now. It is the story of a desired, delineated and organized interdependence between its Member States. How has this endeavour coped with the challenges I have just outlined?

First, on the question of efficiency, Europe scores in my view rather highly. Thanks to the primacy of EU law over national law. Thanks to the work of the European Court of Justice in ensuring enforcement and respect for the rule of law. And thanks to a clear articulation between the Commission, the Parliament, and the European Court of Justice. It also scores highly from the

point of view of redistribution policies. The European structural funds and cohesion policies have overall played a key role in the development of European regions and Member States.

The picture is more nuanced if we look at the issue of leadership. Europe has had a relatively good record in terms of leadership as long as the leadership of the Commission was accepted. It is the Commission who pushed through the creation of the internal market in the early 1990s and of the euro in the late 1990s, two key successes of the European construction project. But today, leadership is blurred by the competition between the Commission and the European Council. This competition does not only affect Europe's leadership, it also weakens coherence of European actions. It affects the manner in which Europe is perceived abroad.

Finally, legitimacy is the area in which, in my view, Europe scores less well. We are witnessing a growing distance between European public opinions and the European project. One could have expected that the European institutional set up, with growing powers entrusted to the European Parliament would have resulted in greater legitimacy. But this is contradicted by the declining numbers participating in elections to the European Parliament. Europe

continues to be seen as distant, far away from the everyday lives and concerns of citizens. Despite constant efforts to adapt the European institutions to democratic requirements, over the past 50 years, there has been no resulting democratic spark. Euroscepticism is on the rise, often encouraged by politicians who are tempted to use Europe as a scapegoat for the difficult decisions they have to take at home, a fortiori in times of crisis. Legitimacy remains a litmus test for Europe.

These are not easy times for the European integration process, with doubts emerging about its future course. I nevertheless believe that it teaches us valuable lessons for global governance. Let me try to lay out a few pragmatic ideas for a possible way forward to bridge the global governance deficit.

First, the European experience offers valuable lessons both in terms of institutions and tools.

In terms of institutions, the European integration process shows that supra-national governance can work. Of course, this does not go without difficulties, and it is highly unlikely that what was done at the European level can be replicated as such at the international level. The European paradigm was

developed under very specific conditions of temperature and pressure. It was shaped by the geographical and historical heritage of a European continent devastated by two world wars. Hence a collective aspiration for peace, stability and prosperity.

It is my firm conviction, however, that one can find a way to better articulate the three elements of governance at the global level through what I have called the "triangle of coherence".

On one side of the triangle lies today the G20, replacing the former G8 and providing political leadership, policy direction and coherence. The second side of the triangle is the United Nations, which provides a framework for global legitimacy through accountability. On the third side lie member-driven international organizations providing expertise and specialized inputs be they rules, policies or programmes.

This "triangle" of global governance is emerging. Bridges linking the G20 to international organizations and to the UN system have started to be built. I myself participate in G20 meetings, alongside the heads of a number of other international organizations. The presidency of the G-20 has organized regular

briefings at the United Nations General Assembly. Specific sessions dedicated to trade have been regularly organized during G20 summits, giving us, at the WTO, some political impetus we need. The political backing of the G20 allowed me, at the dawn of the 2008 financial crisis, to launch a strengthened monitoring of trade policy developments, which has proved a useful and powerful tool to contain protectionism.

In terms of tools, I believe that the European experience of rule-making, transparency and peer review offer interesting avenues for the global level. Peer review appears to me as an efficient "westphalian" tool of governance. It leverages the pride of sovereign nations when reviewed by their peers.

The second idea I would like to share with you is the importance of regionalism. Regional integration processes, which permit a progressive familiarization with supra-nationality, should be further encouraged. Regional integration allows to address the questions of our time at a level where the *affectio societatis* is stronger. At a level where the feeling of belonging, of togetherness is more solid. Regional integration represents in my view the essential intermediate step between the national and the global governance level. Central America, Eastern Africa or the ASEAN are good examples of

this. But regionalism is not a magical recipe. It may suffer from the same difficulties as global governance, falling victim of nationalistic tendencies that drag the level of ambition down.

Finally, one needs to pay greater attention to values. Institutions alone, be they regional or international, cannot do the trick. Our experience with global governance to date shows it. A successful governance system requires not only an institutional machinery, but also a common objective and shared values.

The success of the European monetary integration process is the result of the coming together of shared values and a common goal. It is the combination of these two elements that led to the establishment of an institutional machinery. The creation of the Euro is a project that took 30 years to mature between the Werner report of 1969 and the report of Jacques Delors on the Economic and Monetary Union. The institutional structure then followed relatively quickly: the creation of the European Central Bank, the most federal of the European institutions, was decided in three weeks only.

And today Europe realises that the monetary integration cannot function without a deeper economic and political integration. A common currency is no

longer enough. It requires other common European economic policies. At the same time the existing institutions cannot compensate for the lack of shared values and common goals with respect to this much needed further European economic integration. Absent a proper discussion and a shared vision about these common goals, Europe will continue to limp.

So what are we missing in the case of global governance? We already have a set of institutional machineries in some areas, but these are not underpinned by a sufficiently strong set of core principles and values. This is, in my view, one area where global governance falls short.

What is lacking today is a platform of common values at the international level, in the name of which actions would be taken. The question of social inequalities, for example, is not embodied in the UN vision as designed in the 50's. Our world needs a platform of common values, which would be shared not only by the "West", but with the "rest". Without a basic agreement of this kind, it is difficult to talk about "global public goods". Public goods are necessarily underpinned by common values. If we are to efficiently address today's global challenges, which in many cases are related to the defence, promotion or protection of global public goods, we need to share a collective sense of values

for a better global governance. In fact we need a new declaration of global rights and responsibilities.

We see the growing importance of values at the WTO itself. Rules are made less and less to protect producers; more and more to protect consumers. Issues such as trade and health and trade and environment, where values play an important role, have gained in visibility. As traditional obstacles to trade such as quantitative restrictions or tariffs are decreasing, regulatory discrepancies risk becoming an impediment to market opening and economies of scale. The world of global trade is, to some extent, where Europe was in the 70's: no more tariffs but not yet an internal market. Getting there, whether through harmonization or mutual recognition, will imply a higher level of trust. And trust is built on bedrock of common values.

I had the chance, in my professional life, of working at three different levels of governance, which I often compare to the three states of mass: the national level, which in my view represents the solid state; the European level, which is liquid; and now the international level, which is more like the gaseous mass. The challenge with global governance today is to try to move from its current gaseous state to a more solid one.

But, because of this fundamental legitimacy deficit of global governance, the solution is not to globalize local problems; it is to localize global problems; to make these more palatable to citizens in order to reinforce the sentiment of togetherness I referred to. This requires strong leadership, not only at the international level, but above all at the national level as there is no international leadership in a Westphalian order without national leadership. Of course, such leadership is easier in smaller and homogeneous countries than in bigger and diverse ones, but the stakes of strong leadership are the same for all. It is, in my view, the most pressing issue global governance is facing today.

I thank you for your attention.