Trading into the Future

Rounding the Corner to Sustainable Development

Mark Halle

GTI Paper Series

Frontiers of a Great Transition

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Trading into the Future: Rounding the Corner to Sustainable Development

Why—According to Trade Theory—Everything Should Be Fine, and Why It Isn't

A common cause of human malaise stems from the gap between what one is being told and what one perceives to be true: the wider the gap between propaganda and reality, the greater the human malaise. When the malaise reaches a critical tipping point, reality tends to win out over blind belief in theory, propaganda, or slogans.

In wartime, soldiers characteristically lose faith in the leadership and its constant stream of positive messages long before it becomes clear that the war is lost. Prudent investors abandon stocks long before an economic downturn is formally recognized. And the astute have long since moved to the "next big thing" before the market acknowledges that the old technology, old software, or old cultural icon no longer has a following.

There is a real sense in which the multilateral trading system can be said to be reaching the tipping point, where what trade liberalization delivers *in reality* will become the essential subject of analysis, abandoning the utopian images of what trade should be delivering if the theory were working as it should. That we may have reached this point so soon after the establishment of the WTO and the radical expansion of the trade regime is in many ways surprising.

It is surprising not only because the advantages that trade theory promises from liberalization are so rosy, but because of the remarkable degree to which some of those advantages *have* been realized in practice. Before examining where reality has betrayed theory, it is important to acknowledge the solid foundation on which trade theory actually rests and to explore some of the assumptions underlying the architecture of the multilateral trade regime.

The multilateral trading system owes its existence to the trauma of the Second World War. The internationalist spirit that followed the global catastrophe was led by those who had witnessed first-hand the result of enclosed patriotism and the defense of narrowly-conceived national interests. Indeed, many have made the link between the trade wars that preceded the military conflict and the subsequent outbreak of large-scale war. The architects of the international system were convinced that only an open, mutually dependent community of nations could guarantee peace, stability, and sound prospects for development. This conviction led to the creation of the United Nations system, with its array of institutions that still today play a central role in shoring up world peace—the Security Council, the UN Charter, the UN Declaration on Human Rights, and all the specialized agencies of the United Nations family. It led to the creation of the World Bank and the International Monetary Fund, both aimed at ensuring economic development among the needier nations and the availability of quick intervention mechanisms to bolster economic stability.

A leading sentiment resulting from the Great Depression and the downward spiral into world conflict was that trade openness reinforces mutual dependence and mutual

understanding, whereas trade protection augments the likelihood of misunderstanding, the growth of nationalistic sentiment, and the risks of hostility and conflict.

This conviction lay at the heart of efforts to create—along with the World Bank and IMF—the third of the fundamental pillars of world economic organization imagined at the Bretton Woods conference in 1944: the International Trade Organization. The Havana Conference in 1947-48 was intended to enshrine a global trading system based on non-discrimination, transparency, and the commitment to lower trade barriers progressively in favor of an open and equitable trading system among nations.

If this ambition was thwarted by a wave of protectionist sentiment in the U.S. Congress, characteristically retreating into its shell following the war, the essential pillars of the tariff reduction system were preserved in the General Agreement on Tariffs and Trade adopted in Havana. This set the ground rules for a more open international trading system, which prevailed for a period of almost fifty years.

The fundamental principles on which the trading system is built still apply today.* Their value has been proven many times over. Indeed, most current criticism of the trading system deplores not so much the principles on which the trading system is based but rather the gaps in respect for these principles, and the unequal way in which they are applied.

The three fundamental principles are the following:

- Non-Discrimination: This principle is in two parts. Members of the system must extend to all other members the privileges that are extended to any one of them (Most Favored Nation). Further, they must offer foreign trading partners conditions no less favorable than those offered to domestic competitors (National Treatment).†

- Transparency: This principle is not used in the traditional sense, but instead refers to countries (or trading entities) being fully transparent about the criteria, standards, and regulations that apply to trade with them.

- Peaceful Settlement of Disputes: It is often said that trade sanctions represent the one effective tool available to States to constrain or influence the behavior

* There appears to be no formal agreement on what constitutes the basic principles of the multilateral trading system. Some confine the list to non-discrimination, relegating transparency, and dispute settlement to a second rank. Some would say that the right to exceptions from the blind application of the trade rules is another fundamental principle. For example, GATT contains a range of reasons that can be invoked to restrict trade, ranging from the need to protect endangered species, preserve food safety, and disallow the products of prison labor. Certainly, many developing countries consider the right to "special and differential treatment" to be a fundamental principle in the multilateral trading system.

† In imagining a *Great Transition* world, it is clear that the "nation-to-nation" interaction on which the trading system is based could cause difficulties. In fact, the system is based on the notion of customs territories or trading entities. Thus, Hong Kong (officially Hong Kong China) and Taiwan (Chinese Taipei) are WTO members, despite the fact that virtually no one regards them as sovereign states. There is no fundamental reason why the system should not work in a *Great Transition* world, made up of a mosaic of trading communities.

> of other States, beyond the weak approach available through diplomacy and the other extreme of warfare.

These principles continue to be important today, but fifty years of experience have shown that, on their own, they do not automatically guarantee the emergence of the ideal world in which we would like to live. At the heart of the principle of non-discrimination is the undertaking not to offer poorer conditions to the access of "like" products from foreign competitors to home markets and not to offer less favorable conditions to any one or any group of trade partners that are part of the system. But the notion of "like products" is itself problematic. The WTO (though, interestingly, not its Appellate Body) has tended to maintain the position that the test of "likeness" should rely on the physical characteristics of the traded goods. A consideration relating to the way a good was produced tends not to be regarded as relevant if that difference does not result in detectable differences in the final product. This perpetuates the fiction that the trading system—like the mythical concept of justice—is "blind". A manufactured good prepared through a process that employs child labor, destroys natural resources, or pollutes waterways is to be treated at the border no less favorably than a good produced using the most environmentally and socially preferable process.

This approach is now breaking down, for two reasons. First, it is now clearly accepted that the trade rules do, in fact, allow discrimination among "like" products in many cases. Indeed, in the case of the rules governing intellectual property rights, they require a distinction not only among "like" products, but among identical products (e.g. between Bayer aspirin and generic aspirin)—though this distinction applies only once the good has cleared the border. But it is also breaking down because the Appellate Body has taken the position that trade law must not be considered in isolation from other rules governing public policy. This may be deemed to include the growing wish on the part of consumers to use the market as an instrument to reward the kind of production that they favor. Clean production, they argue, should be rewarded by more favorable treatment in the trading system, thereby using the power of trade to reward a socially or environmentally desirable form of production and discouraging another.

The principle of transparency is still deemed important, but the way in which the trading system has understood it is too limited. In the parlance of the trading system, transparency equates with prompt and readily available information on the conditions that apply to trade in a particular country. Thus, WTO members are obliged to notify the other members in a timely manner on market entry requirements, regulations affecting traded products, or applicable tariffs, and to keep them updated as these evolve. While this requirement remains an important goal and one that is not yet attained (the U.S., for example, is notoriously slow in notifying the WTO on subsidies to its agricultural sector), there is a growing sense that transparency is too narrowly defined by the trading system.

That said, open trade tends to exert a positive influence on improving economic governance, and more open processes for trade policy formulation tend to lead to better trade policies. It is too often assumed that the chief alternative to the admittedly imperfect multilateral trade rules in force today is a set of more nearly perfect rules. In fact, the rules and disciplines on trade that are negotiated by the WTO more often replace trade practices that are opaque, are inequitable, and cause a considerable drag on economic activity.

It is perhaps in respect of the third principle that the situation has evolved most. The principle of peaceful settlement of disputes remains sacred, since its alternatives—unilateral action, extraterritorial imposition of domestic rules and standards,* or blatant bullying using one's commercial muscle—clearly are not acceptable. Indeed, with the creation of the WTO in 1995 and the radical strengthening of the Dispute Settlement Body, the trading system has reinforced its dedication to this third principle.

At the same time, access to justice has proved to be no guarantee that justice will prevail. States that lose out in trade disputes are under no obligation to comply with the results of dispute settlement panels provided that they are prepared to live with the consequent retribution. When the European Union loses a banana case to Ecuador, it has the choice of complying with the required adjustment of its policies, or ignoring the ruling. Ecuador's legal right to punish the EU with sanctions is limited by the importance of its trade with the EU. Where this is weak, the party found in the wrong may simply prefer to ignore the minor inconvenience of WTO sanctions—the economic equivalent of a small mosquito bite.

So the three principles on which the trading system are based have proved insufficient in bringing us to the goal for which it was set up after the tragedy of the Second World War—to move the world away from conflict by making the members of the trading system mutually dependent, by contributing to the improvement of human well-being, and by putting in place a system that judges conflict even-handedly and from which all members clearly benefit.

This is not to say that the system has failed—only that it is insufficient on its own to achieve the ambitious goals set for it. We shall examine the reasons below. Before that, however, it is important to acknowledge just how successful the system really has been—or rather how successful the system was before the latest expansion in trade liberalization laid bare some of its fundamental flaws.

During the forty-seven years from the adoption of the General Agreement on Tariffs and Trade in 1948 to the establishment of the WTO in 1995, barriers to trade in goods were progressively lowered or removed, contributing to a world economic growth that expanded manifold and worldwide. By and large, the countries that were well-positioned to embrace more open trade grew more rapidly than those that shunned it.† The pressures of open competition were also, in many cases, pressures for more transparent and robust domestic institutions, for improved governance, for better education, for the breakdown of social barriers—in short, they contributed to development of the countries involved in trade. While this did not prevent the emergence of economic elites, and whereas democracy was often put on hold while economic development was keyed up, by and large countries that depend on trade for the bulk of their economic growth are better off than those with relatively closed borders and protected domestic industries. Of course, the picture is a complex one, with many caveats. The point here is that shielding economies

* Some would disagree, noting that the imposition of the higher standards that prevail in rich countries is a way to accelerate the improvement of standards in poorer countries. This author disagrees. The objective to improve standards in poorer countries should be pursued through cooperation and technical assistance, not through trade sanctions, which have the effect of freezing the present unequal situation in place.

† The relationship between trade openness and growth is not a simple one. Dani Rodrik (2001) and others have showed that certain conditions must be in place before countries can genuinely benefit from trade-led growth. Where those conditions do not exist, trade openness can do more harm than good.

from international competition offers no guarantee of peaceful development in the quiet haven of a protected market.

Six rounds of multilateral trade negotiations in the GATT over four decades brought about a substantial reduction in tariffs, quotas, and other border measures affecting manufactured goods and contributed to the massive expansion of the world economic pie, including in the developing countries, all in a period unprecedented in the peaceful nature of the relations between the principal trading blocs. If sustainable development requires much more than just trade, at least trade appeared clearly to be making its contribution. Trade theory appeared to be working. This result was in large measure responsible for the massive expansion in the scope of trade policy that emerged from the Uruguay Round (1986-94) and for the creation of the WTO.

Ten years after, the multilateral trading system appears to be in trouble. The WTO has lost a good deal of political support and public legitimacy, and it has faced criticism for forcing what is increasingly seen as a failed economic model on the world. While economic elites, multinational corporations, and rich countries may benefit from trade-led growth, this growth does not invariably benefit societies as a whole. Indeed, the WTO is increasingly accused of contributing to the growing gap between rich and poor countries, as well as the growing gap between rich and poor domestically. It is seen as the cheerleader for a model (the so-called "Washington Consensus") that has failed to promote overall human well-being, that has betrayed the commitment to improve the prospects of developing countries, and that is pushing us further down a road that will only make things worse. What went wrong?

Critique of the WTO

While the Uruguay Round accords might appear to be just one further step forward in the inexorable process of removing barriers to the flow of traded goods, and while the WTO might appear as not much more than a strengthened and modernized version of the old GATT secretariat, both perceptions are inaccurate. Both the Uruguay Round package of agreements and the WTO are, in many ways, fundamentally different from what came before.

First, while the previous GATT rounds had limited the scope of trade policy largely to the way that manufactured goods are treated at the border, the WTO rules expanded beyond border measures to include a strong focus on domestic policy—in other words how domestic laws, regulations, standards, and practices affect trade. It introduced a series of requirements for the crafting of domestic policy designed to minimize negative impacts on trade. Trade rules in this way added to the important impact of tariff policy to become a powerful tool for shaping the economy of others, by giving trade considerations pride of place when compared to the other, domestic motivations for policy development. As such, it greatly limited the scope of domestic policy—shrinking the policy space available to developing countries to balance between free trade abroad and attention to development priorities at home and disallowing the use of policy instruments freely employed by the rich countries at a similar stage of development—what Ha Joon Chang has called "Kicking away the Ladder" (Chang, 2002).

Second, the WTO rules were presented as a "single undertaking". Membership in the WTO required adopting all twenty-five agreements that made up the Uruguay Round

multilateral package,[*] with no possibility to pick and choose those that would be beneficial and to stay away—even temporarily—from those that would not. This, together with a dispute settlement system whose decisions are binding on all members and that has the power to enforce compliance through sanctions, made the WTO considerably more powerful than GATT and gave the trade rules a power and authority that goes well beyond the rules governing environment, social justice, or other areas of development concern.

Third, the Uruguay Round package expanded into new areas. If GATT had largely been about trade in goods, the scope of the WTO extended to trade in services, to rules governing intellectual property rights, to investment, and more generally to the domestic policy environment affecting trade. Thus, for example, environmental regulation, food safety standards, patent protection, and many other areas of traditionally domestic concern were pulled under the spotlight of trade scrutiny and questioned when their effect on trade was deemed negative. It is this invasion of domestic policy space, added to the imposition on countries of a tight framework of tariff-lowering, trade-led development that has resulted in much of the opposition to the WTO and to further trade liberalization.

It is not that the Uruguay negotiators believed that the benefits from the Round would flow automatically and equitably to all participants in the trading system. Indeed, they recognized that the poorer countries would need more time to make the domestic adjustments necessary to benefit from the new, open trading system. Developing countries were typically offered a five-year grace period to introduce the new rules, and the least developed countries were given ten years. This assumed both that they had the capacity to make the adaptation without assistance if given a bit longer and that taking on the new set of trade disciplines was necessarily in their interest.

Of all the assumptions made by the Uruguay Round negotiators, this is the one that unraveled most quickly. The fundamental flaw, seen from the perspective of 2006, is the assumption that a uniform system, with perhaps a few flexibilities for the poorest countries and a more generous phase-in period, was suitable for all countries independent of their level of development. Fundamentally, the WTO system is one-size-fits-all. It tends in reality to be a size that fits the rich countries.

More dramatic than the assumptions has been the unfolding reality. The Uruguay Round was sold aggressively to the poor countries on the grounds that, while some countries would benefit more than others, all would come out winners. By 2000, this rosy promise was clearly coming apart. Not only were many developing countries suffering from the requirement to implement the complex new set of obligations, but they were also growing increasingly skeptical about what they might gain from the new-found trade openness. Indeed, many were clearly losing out.

This stark reality, combined with the apparent indifference of the rich countries to the predicament in which they had left the poorer countries and with the sharp pressure to press forward with a new wave of liberalization, began to seriously damage public support for the WTO and gave fiber to developing country resistance to further liberalization that was not clearly beneficial to their interests. This resistance precipitated the collapse of the Seattle ministerial conference of the WTO in 1999. It led to the solemn guarantee in Doha, in 2001, that the new Round would be a development round.

[*] A further four "plurilateral" agreements apply only to the members that choose to adopt them.

It led to the rejection, in 2003, of the "business as usual" approach to the negotiations and the so-called "failure" of the Cancun ministerial conference of the WTO. And it appears to have brought the negotiations under the so-called Doha Development Round to a standstill in 2006, despite a narrowly-avoided failure in the Hong Kong ministerial meeting in late 2005.

In ten years, the trading system so proudly unveiled in Marrakesh at the end of the Uruguay Round has run into the ditch. Developing countries are increasingly skeptical of the one-size-fits-all approach that clearly does not fit their reality. They observe that the single undertaking that was the WTO's great innovation locks in bad agreements and makes them almost impossible to renegotiate, even when experience shows that some of their provisions are unfortunate. They clearly believe that, whatever benefits the system has brought about, it has failed to bring the world closer together and to address the fundamental inequities that underlie the development challenge. And it has yet to prove that it is capable of going beyond the narrow, mercantilist horse-trading approach to adopt one in which a broader concept of national interest is defended, in which multilateralism is seen as a value in its own right, and in which trade policy evolves within a framework that is in harmony with the priorities of security, foreign policy, equitable development, and sustainability.

We have learned over the last ten years that gains from trade openness are not automatic (Rodrick, 2001). Whether or not a country benefits depends to a very important extent on the conditions in place in that country. Countries that have the human capacity, that have the range of institutions necessary to manage trade and competition, and that are governed by broadly accepted standards of transparency, participation, and democratic accountability are in a good position to benefit from trade opening, or would be if the system were fair. Those that lack this capacity or these institutions will almost surely lose out from liberalization that is forced on them. It is idle to point to flawed domestic policies, poor governance, or inadequate trade promotion as the causes of their difficulties. The reality is that these countries lose out and this causes negative pressure on their development prospects in the short and often the medium term. The failure of the multilateral trading system to adequately address this reality has seriously undermined its legitimacy.

As noted above, the developing countries would have a better chance if the system was fair, but it is not. Endless studies have pointed out that liberalization happens fastest in sectors in which the rich countries have a comparative advantage; sectors in which the developing countries prevail, such as textiles or the production of agricultural commodities, are left for later. To make matters worse, the developed countries deploy a wide array of other tools that limit competition based on the advantage of cheaper labor—from tariff peaks (higher tariffs on a particular product—like Gruyère cheese—than those applied to the dairy sector in general), tariff escalation (lower tariffs for raw materials—like raw logs—than for processed goods like furniture), environmental standards, packaging and recycling requirements, etc.

All in all, the rich countries have given the strong impression that they are not prepared to allow equal access to the economic pie. The blatant unfairness of the system, the disregard for the genuine difficulties faced by the developing countries on the global trade stage, the gap between the development rhetoric and the harsh reality of the negotiating table, and the low priority consistently given to developing country issues, to

social justice, and to the environment have all contributed to a significant loss of faith in the multilateral trading system and in the good faith of the developed countries in crafting a system that meets the challenges of development.

Where Do We Go From Here?

The answer to that question depends a good deal on the goal we wish to reach; as the saying goes, "if you don't know where you are going, any road will take you there". Before what is valuable in the trading system is undermined by public and political rejection of what is wrong with it, it is important to ask ourselves a fundamental question: What do we want of the trading system and how can the system be adapted so that it delivers this result?

The clearest articulation of the purpose of the trading system is set out in the Preamble to the Marrakech Agreements establishing the WTO. The Preamble states that expansion of trade should be undertaken "while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with [countries'] respective needs and concerns at different levels of economic development" (WTO, 1994). The notion that an open, rules-based trading system can and should be supportive of such widely-shared policy goals as sustainable development is further strengthened in the mandate for the current Round of negotiations. Paragraph 6 of the Doha mandate states, "We are convinced that the aims of upholding and safeguarding an open and non-discriminatory multilateral trading system, and acting for the protection of the environment and the promotion of sustainable development can and must be mutually supportive (emphasis added)" (WTO, 2001).

Two conclusions can be drawn from these legal statements of intention that suggest a way forward. The first is that the trading system is intended to advance other public policy goals and not to undermine them. It should be possible, therefore, to devise a series of tests that demonstrate whether trade rules in fact take us closer to those goals or, on the contrary, make their attainment more difficult. If sustainable development is indeed a goal that "must" be advanced by the rules-based trading system, in what way are these rules favoring sustainable development and in what way are they undermining it. And what changes to the rules would be needed to ensure that the goal is genuinely met?

The second conclusion is that trade policy can no longer be regarded as an autonomous construct, neither significantly affecting nor significantly affected by other policy areas. With the creation of the WTO, trade policy has become so interwoven with other public policies at both the domestic and international levels as to be inextricable. The simple assumption in the commercial sector that the trade rules prevail and that other policy areas must prove their compatibility with them is no longer acceptable, if it ever was. A genuine effort will have to be made to ensure the harmony and mutual supportiveness of all relevant policies and regulations. The template against which this harmonization must take place cannot be other than the goals set for the system as a whole, the goals articulated in the WTO Preamble and sharpened in the Doha mandate.

Both of the above considerations, stemming from the admittedly vague articulation of WTO's purpose contained in its foundational texts, remind us of something that is too often forgotten: that trade is a tool, a means to an end, and not an end in itself. The trade

community, with its tendency to become enamored of the trade game and obsessed with its rules and practices, too often loses sight of the purpose for which the trade game is played. And yet the answer is right before our noses: Sustainable development—development that pursues economic growth and efficiency while addressing social equity and inclusion and soundly managing natural resources and ecosystems—is the end that trade is designed to serve and that it must serve.

Beyond this, however, it is clear that there is a good deal of confusion about the notion of "free trade". While free trade is an interesting concept, it does not exist and never will. The job of the WTO may well be in large part to lower or remove unwanted barriers to trade, but it is also to give sanction to trade restrictions that are deemed desirable. Thus, WTO rules allow countries to restrict trade in products of prison labor. It allows trade to be limited on grounds of food safety. It allows multiple exceptions to the disciplines imposed on its members on grounds of poverty, lack of capacity, or "stage of development". And of course, for all the work done over the past six decades, many barriers to trade still exist. Where they have disappeared or been lowered, it has generally been in areas where the commercially powerful will stand to benefit most. Where trade barriers have been kept in place, it has generally been to the disadvantage of poorer countries.

So, we are dealing not with free trade, but with managed trade, and any managed system responds to a series of objectives that outline the purpose for which the system is managed. The problem, as argued above, is that the trade system is purportedly managed for the objectives defined in the Preamble, but in fact responds to another set of objectives linked to the mutual advantage of its most powerful players. Just as it is argued above that trade theory remains compelling and convincing (with caveats), so there is nothing much wrong with the objectives of the system set out in the Preamble…except that in neither case do they represent the ground-rules on which the system operates.

In setting out this critique of the multilateral trading system as it currently operates, there is no suggestion that this represents the centre of gravity of critical opinion in its regard. It is well recognized that many—and among them the most vocal—critics believe that the multilateral trading system is taking us in entirely the wrong direction. For these, it is not so much that the WTO is not properly applying what trade theory dictates, as that the entire system is based on an economic approach that is fundamentally flawed. Liberalization, for these critics, is simply the wrong way to go, so any advance in liberalization takes us further in the wrong direction and further from preferable alternatives.

The concerns of these critics may roughly be characterized as follows:

- Those who believe in local production and local choice: They believe that production, especially in such fields as agriculture and services, should be as close to the consumer and to the market as is reasonably possible (see the Arcadia scenario, below). International trade should intervene only when local production cannot meet demand or can only do so in a way that is uncompetitive beyond the bounds of reason. This group tends to favor the notion of self-sufficiency and the maximum possible range of policy choices left open to the authorities to craft the optimal development approach.

- Those who believe that the trading system is irremediably dominated by powerful commercial forces that dictate government trade policy and control government trade negotiators: These critics believe that bringing trade policy (as practiced) in line with trade theory or the goals of the Preamble is a hopeless endeavor given the power and influence of corporate interests and their grip on government policy. Precipitating a crisis in the trading system is, to this group, quite possibly desirable in that nothing short of that will bring about the necessary fundamental rethinking of the system.

- Those who believe that the liberal economic model has proved to be a sham and that trade liberalization is inexorably tied to that model: Both the mercantilist system of negotiation and the agenda for liberalization—at the global, regional, or bilateral level—continue to be based on the conviction that the liberalization model is the right one to follow. Any attempt to advance the agenda—or parts of it—amounts to providing support and legitimacy to a failed system. Instead, they believe that the sooner we replace it the better.

Most others who engage with the trading system—including this author—would share aspects of these three perspectives. But they continue to believe that the system we have is reformable and that undermining it could leave us with something worse—perhaps even considerably worse. They observe that the WTO, in its ten years of existence, has in many ways shown itself not to be inflexible and that pressure to reform is paying off and will continue to pay off in the future. They tend to recollect some of the lessons from periods in history when borders were closed. They acknowledge many of the gains that free trade has brought about and argue that, while not as strong as they might be, they nevertheless are responsible for a considerable improvement in human well-being. Finally, they point to the fact that the gains from trade liberalization could be considerably greater if it were not for unfortunate policies at the domestic level. Greater benefits from trade are available to countries that construct their policies in a way that seeks out these gains and secures them.

This latter set of trade critics also makes a sober assessment of the likelihood of success in pursuing alternative options. A feasible strategy that will bring about an incremental improvement of the system—including a reorientation of the economic model on which liberalization is based—is preferable to one that would bring about a massive improvement but that has virtually no chance of prevailing. In pushing for change, there is always this dilemma: Is it better to seek to reform a powerful institution, knowing that reform is possible, or to set about undermining or opposing that institution, knowing that prospects for success are minimal? Each group must work out the right strategy for itself.

So, the challenge is to preserve the benefits of international trade while pushing for reforms that will increase the chance of the trading system supporting broader social, political, economic and environmental goals. In short, we are looking for a way in which to manage trade that will help bring about the transition to the world we would like to see emerge from our efforts.

How are we doing?

Reasons for Optimism

Things tend to appear immutable until they begin to mutate. Correcting major problems tends to appear hopeless until hope breaks through. And challenges so rooted and ponderous that they appear unmovable offer a different perspective when they begin to move. All of us can remember major shifts in human fortunes that had appeared impossible only a short time before.

In the early seventies, U.S. campaigners against smoking in public places were laughed at openly—they could never make a dent in the tobacco lobby and its stranglehold on Congress. As late as 1989, top Kremlinologists were predicting that the Soviet Union and its empire would easily recover from its Afghan adventures and sail into a placid future. The fact is that change may be long in preparation, but when it begins to occur, the process can move fast.

So, if most of the signals emerging from the multilateral trade system suggest that national positions continue to be motivated by the short-term interests of powerful lobbies, there are also signs that change could be just around the corner. The emergence of a powerful group of developing country players—Brazil, India, South Africa, and others—over the past three years has fundamentally changed the power dynamics in the WTO. The entry of China and the anticipated accession of Russia will shift it still further.

The sometimes clumsy attempts of trade policy to push into sensitive domestic arenas such as investment, intellectual property rights, and services have provoked a push-back that is increasingly robust. It has, in addition, provided a pole around which to organize the forces that contest it, so that these voices are ever more coherent and convincing. It has provoked a public debate on the issues so that trade policy can no longer fly below the radar.

More than anything, it has, in the past couple years, strengthened the call to trade policy to demonstrate its contribution to the public good and to take steps to make sure that contribution is not made at the expense of other goals held dear by society. Increasingly, the onus is on the trade policy community to demonstrate that it is able to deliver on the promise of trade theory—or to correct market imperfections so that trade theory works better. Invocations of what should happen are no longer acceptable—it must actually happen, and, if it does not, those promoting the theory will increasingly be held to account.

The air is full of signs of imminent change, and this offers grounds for modest optimism. The question must then be posed: is there anything like a consensus among those seeking change as to where we would like that change to lead? As suggested in the categorization of trade critics offered above, we are still far from such a consensus.

The Multilateral Trading System in a *Great Transition* World

As suggested above, the optimal design and functioning of the multilateral trading system depends to a great extent on the goal that we wish to reach. In this section, we will suggest the characteristics of a trading system redesigned and restructured to support a *Great Transition* future (Raskin, 2006). A plural world civilization is envisioned, comprising many different regions falling into three broad archetypes: Agoria, Ecodemia, and Arcadia (see Box). For each of these, we must ask what the global trading system

might look like, what would be the dominant features and characteristics of a system that contributed to the attainment of each of the archetypes described within a single world, and how would the trade rules and the trade practices might need to be adjusted to bring about each of these scenarios.

A Mosaic World

Independent discussion of the three models—Agoria, Ecodemia, and Arcadia—might suggest that the three are mutually exclusive and that each is an option to be chosen to the exclusion of the two others. Such an approach would run against the spirit of the *Great Transition*. Indeed, the fundamental tenet of the *Great Transition* is that we wish to exercise freedom of choice and to design our economic, institutional, social, and environmental models to serve that choice. We wish the trading system to serve as an engine that we harness to take us forward towards the future we have chosen.

It follows that we must respect the choice of those whose vision is not the same as ours. Arcadians must live with and respect Ecodemians, and both must co-exist with those who have opted for the Agorian model. The *Great Transition* envisages a world in which a mosaic of different approaches coexist in a patchwork of societies and communities that respect and reinforce each other's choices.

None of the three models is incompatible with an open, rules-based, multilateral trading system. The fundamental principles that ostensibly govern our trading system today would apply to any of the three scenarios, as well as to a world characterized by a patchwork involving the three in peaceful co-existence. The principles of transparency and peaceful settlement of disputes would require no modification. The principle of non-discrimination would also apply to those goods and services in international trade, and as long as the notion of nations is extended to trading entities. The Arcadian model (see below) would undoubtedly trade less than the others, but there is no reason to believe that non-discrimination would not apply to goods that met the qualifications for being traded.

The fundamental principle here is that of respect for social and political choice. The *Great Transition* world would in this sense be radically different from the model in place today. Respect for political and social choice would be the threshold condition, the term of entry. Once that respect was enshrined, then the trade rules would come into play in support of the models in place. For the same reasons given in arguing that the rules of trade are not fundamentally in contradiction with any of the three choices and, indeed, would require no fundamental adaptation, a trading system that respects diversity of economic models would not be overly difficult to craft. It only requires us to agree on the goal we wish the system to serve.

Regions in a *Great Transition* World*

The fabric of planetary society is woven with hundreds of regions which are astonishingly diverse in character and size. Some correspond to the national boundaries of a century ago and others are federations of earlier states. Still others are parts of former states, forging a common identity around the boundaries of river basins and other ecosystems (so-called "bio-regions"), urban centers, and cultural traditions. Nevertheless, most regions can be clustered crudely into one of three major types, called *Agoria*, *Ecodemia*, and *Arcadia*, although few regions are pure cases.

Agoria

These regions would be most recognizable to a visitor from the year 2000. Some critics call *Agoria* "Sweden Supreme", with its more conventional consumer patterns, lifestyles, and institutions. Its economies are dominated by large shareholder corporations. However, when compared to even the most outstanding examples of social democratic models of the last century, the commitment to social equality, the environment, and democratic engagement from the level of the firm to the globe is of a different order. The key is a vast array of policies and regulations, supported by popular values, that align corporate behavior with social goals, stimulate sustainable technology and moderate material consumption in order to maintain highly equitable, responsible, and environmental societies.

Ecodemia

The distinguishing feature of *Ecodemia* is its fundamental departure from the capitalist economic system. The new system, often referred to as "economic democracy", banishes the capitalist from two key arenas of economic life. First, the model of the firm as comprised of private owners and hired workers has been replaced by worker ownership in large-scale enterprises, complemented by non-profits and highly regulated small businesses. Second, private capitalist markets have given way to socialized investment processes. Worker ownership and workplace democracy has reduced the expansionary tendency of the traditional capitalist firm. The focus is now on profit per worker (rather than absolute profit) and the popular goal of "time affluence", which shortens work weeks. Publicly controlled regional and community investment banks, supported by participatory regulatory processes, re-cycle social savings and tax-generated capital funds. Their mandate is to ensure that successful applications from capital-seeking entrepreneurs satisfy social and environmental criteria, as well as traditional financial criteria.

Arcadia

Relative to other regions, the bias in *Arcadia* is toward self-reliant economies, small enterprises, face-to-face democracy (at least in cyberspace), community engagement, and love of nature. Lifestyles tend to emphasize material sufficiency, folk crafts, and reverence for tradition. While the local is emphasized, most people are highly connected with cosmopolitan culture and world affairs through advanced communication technology and transportation systems. *Arcadia* has centers of innovation in some technologies (organic agriculture, modular solar devices, human-scale transport devices, etc.) and arts (new music, craft products, etc.). Exports of these products and services, along with eco-tourism, supports the modest trade requirements of these relatively time-rich and slow-moving societies.

This discussion of differences should be balanced by a reminder that the regions also have much in common. Relative to the nations of a century ago, contemporary regions enjoy a high degree of political participation, healthy environments, universal education and healthcare, high social cohesion, no absolute poverty, and more fulfilling lives. Finally, people the world over share the historically novel attribute of citizenship in a world community.

* Summarized from Raskin (2006).

A trading system for Agoria

Of the three scenarios, achieving Agoria would require the least fundamental change in the operations of the trading system. Put more starkly, Agoria is the outcome that would result if trade theory corresponded to reality and the objectives of the multilateral system were honestly pursued. In other words, Agoria is the sort of society to which the present trading system declares itself to be committed.

It follows that a transition to Agoria would require no particular systemic change, but rather a major effort at compliance—with both rule and intention. The analysis offered above suggests that such a move towards reconciliation of theory and intention on the one hand, and reality on the other, is not beyond reach. How fast that move will take place and how far it will go is, of course, impossible to predict. But it is a movement that this author argues is already underway. Here is some evidence:

- Although powerful forces in the WTO have tended to stonewall any significant and practical progress towards harmonization of trade and sustainable development, the WTO Dispute Settlement Body (and particularly the Appellate Body that is part of it) has shown on repeated occasions that it refuses to interpret trade law in clinical isolation from other bodies of public international law. Indeed, it has taken clear steps to favor harmony among these.

- The history of the Doha Round has shown beyond the shadow of a doubt that a significant group of developing countries will not allow themselves to be bullied into an agreement that they do not deem to be in their interest. Efforts to divide and undermine this group of countries in the two years between the Cancun and Hong Kong meetings of WTO made no lasting headway. Indeed, developing country solidarity was, if anything, more robust in Hong Kong than it was in Cancun.

- Time is not playing in favor of the traditional countries and blocs that dominated GATT and assumed they would dominate the WTO. OECD analysis no longer serves as the unquestioned foundation for trade-related economic planning. The traditional "Quad" countries—the U.S., Canada, the EU, and Japan—no longer set the trade agenda. Indeed, the Quad is no longer a visible force at all.

- Public disaffection with the WTO has grown steadily and, more significantly, has become sharper, more articulate, and better targeted. Its effect on the trade policy debate is now palpable.

All this suggests that "business as usual" is no longer an attractive option (if it ever were); there are real doubts as to whether it remains a realistic option at all. But if we are inevitably going to have to change course, is it towards Agoria that we are likely to move?

Alas, this is far from certain, though it remains more attractive than the likely alternative—a retreat into protectionist nationalism, the aggressive pursuit of mercantilist

regional and bilateral agreements governed not by public policy objectives but by sheer commercial and political power. This is a recipe for economic claustrophobia, political isolation, and all the bad things that trade theory tells us result from restrictions on open, rules-based trade. It is the "Fortress World" described in the *Great Transition* essay.

Let us, however, spurn that defeatist option and set the course of the trading system resolutely on a bearing for Agoria. What are the likely components of a transition? This author suggests that there are three major building blocks:

1) First, as suggested above, it would require a firm, specific, measurable, and accountable dedication of the trading system to agreed goals. For the purposes of Agoria, the articulation of the system's purpose set out in the WTO Preamble and in the Doha Mandate is an adequate and acceptable starting point for such a goal. Cementing the rift between the hortatory statements of purpose and the realities of the current trading system would not only require more precise articulation but also a set of instruments designed to track and report on progress towards this goal.[*] This in turn would require that the goal be translated into a set of operational strategies aimed at effecting the transition between the inequitable and sometimes damaging system that we have today to one that responds optimally to the goal set for the system. It also requires ways to test proposed trade measures and trade rules against the goal to ensure that they will genuinely result in progress towards it.

   We are far from that now. The stated goals of the multilateral trading system are regarded by most trade negotiators as nothing more than a general, inspirational reminder that trade is not an end, but a means to an end. We are suggesting that this is right, and that we must take steps to ensure that the specific end articulated in these goals is the one served by the means put in place.

2) Policing this transition requires means that are not currently available in the WTO. However, that which is required is not alien to the system. One division of the WTO—the Trade Policy Review Mechanism—currently undertakes regular reviews of national trade policy and recommends ways in which national rules, regulations and practices might better be brought into line with the requirements of WTO. There is no structural reason why this division might not be reinforced and its mandate expanded so that it reviews trade policy not only against a template of WTO compatibility but also against the obligation of progress towards the agreed goals for the system as a whole. Is Europe's system of geographical indications one that promotes equity among nations and environmental stewardship, or does it undermine these? Is the system of domestic energy subsidies in the U.S. sending signals that induce the economy towards more sustainability, or do the signals offer incentives for unsustainable behavior? In other words, an extension and refocusing of current practice in the WTO could, in fact, offer a tool for transition to Agoria.

[*] As indeed it would for the other scenarios as well.

3) What applies to domestic policy applies also to multilateral rule-making. While outside players frequently analyze the likely consequences of policy decisions, it is not routinely done in the trading system and, where it is, its objectivity is not always fully assured. The transition to Agoria would require robust tests to be applied to all proposed new rules that are negotiated. It would apply these tests to the negotiation proposals and come to a determination as to whether they would advance us towards the goal set for the system, whether they would be neutral against that test, or whether, on the contrary, they would take us further from attainment of that goal. These tests would have to be administered objectively and independently of the various interests at play, either by a highly autonomous part of the WTO or by an outside panel on their behalf.

   In turn, the Appellate Body of the WTO, and the dispute settlement mechanisms in regional and bilateral trade agreements (where they exist), would very specifically address the disputed measures and actions in the context of the goals agreed by the Parties tending (all other things being equal) in favor of action that advances the Parties towards the stated goal and ruling against trade measures that render its attainment more difficult. WTO would invoke its authority (vested in it through Article XXIV of the GATT) to judge, accept, or reject regional and bilateral trade agreements, including on the grounds of their contribution to the agreed goals of the multilateral trade system.

   And it would require leadership, both at the level of the WTO Council and in the Secretariat, that elevate the goal to the status of a firm objective and which relegate other considerations to a secondary status.

None of this is utopian. Indeed, none of it is especially difficult to put in place provided of course that the decision to do so is taken. That in turn requires the mobilization of political will, that famously evanescent factor in all international relations. Still, if the choice boils down to making the trading system more accountable for progress towards its stated goal or watching it deteriorate and become helpless in the face of a growing wave of protectionism, there can be little doubt which outcome is the more attractive.

A Trading System for Ecodemia

Ecodemia reflects a socialist world view, though one much different from the failed model evident in the former Soviet bloc. While this model is not incompatible with a world in which trade plays an important part, it challenges the present paradigm in some ways more than the Agoria or Arcadia models.

The construction of the current multilateral trading system is based on a number of considerations, some of which have been demonstrated and others questioned. It is, as set out above, certainly based on the notion that a rules-based, multilateral system governing trade is the optimal system, the one most likely to benefit the full range of countries and to deliver on trade theory's promise of mutual dependence, mutual understanding, and therefore protection from conflict.

On the surface, there is no reason to believe that trade would not play a strong part in Ecodemia. As with the two other scenarios, the rules of trade would be placed at the

service of a wider goal. In the case of Agoria, it is the goal to which the trading system is already—supposedly—dedicated. In the case of Arcadia, trade would be put at the service of communities that are locally organized and run, with a clear set of social and environmental objectives established as an entry test for any trade. Ecodemia also sets out base conditions, with the suggestion that trade is welcome only if it meets and supports these conditions.

On reflection, the trading system can be designed to support any number of broader social, environmental, or other objectives. If the policy decision were taken that we wanted (genuinely) for trade to focus on the elimination of poverty, the trading system could, without too much difficulty, be restructured with that in mind. UNDP has published a compelling book on the subject.* If we want it to contribute optimally to development, defined along the lines of Amartya Sen's capabilities approach, this could be done without structural change to the system. IISD has published a compelling book showing what changes would be needed (Cosbey, 2004). If we want the trading system to maximize opportunities for unconstrained economic growth no matter who captures that growth, Jagdish Baghwati, in any of a lengthening series of books, gives us the instruction manual.† The same could be said for other visions of trade and the capacity to harness its power in the service of these outcomes.

So if Ecodemia is the destination—if there is a clear global consensus on the subject—it is not difficult to plot a sensible course starting from here and now and reaching it in several easy steps.

Restrictions on private ownership and on private entrepreneurship are in no way incompatible with the trading system, provided they are transparent, they do not discriminate among members of the system or between domestic producers and trade partners, and there are no easily available approaches that would be less trade restrictive.‡ How an enterprise distributes profit is not the business of the trading system.

The range of measures in Ecodemia to maximize the time-affluence of workers are all, even today, within the reach of States should they decide to pursue them. The fact that Canada has a nationalized health system doesn't automatically place it afoul of the multilateral trade rules when compared with the U.S. that does not. The fact that Norway offers three or four times more maternity leave than does Switzerland may place it at a trade advantage or at a trade disadvantage, but it does not place it in an invidious position with respect to the trade rules. Indeed, provided that measures taken are not discriminatory and that they do not challenge undertakings made elsewhere, there is in the current trading system considerable scope for setting social and environmental standards in line with the decisions of national governments.

So the challenge with Ecodemia is not that it would infringe the rules of trade or require a massively new architecture for these. It is more likely that the organization of enterprise in Ecodemia would affect competition policy than the trade rules. It would certainly

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* (UNDP, 2003)

† For Bhagwati's books, see: http://www.columbia.edu/~jb38/index_books.html

‡ This is a reference to the WTO's acceptance of domestic policy measures taken in the normal conduct of government business. It asks only that, among the alternatives available for reaching the policy objective in question, the least trade-restrictive option should be chosen.

require a vigilant attention to the principle of non-discrimination to guard against direct or indirect measures aimed at favoring national production.

A Trading System for Arcadia

It is too often forgotten that the overwhelming bulk of all world trade is local. People the world over, especially but by no means only in the developing countries, tend to buy and sell goods and services that have been produced locally. The remarkable expansion of global trade, the emergence of the Internet, and the massive hype about our changed world have not radically altered that fundamental reality. We produce, buy, sell, and consume mostly in our back yards. And a high proportion of international trade is also local, confined to border areas and the immediate hinterland. It is not so much trade in goods and services that is globalized; it is the movement of capital, patterns of corporate shareholding, intra-company trade, flows of information, and the ability to participate more directly in processes and decisions around the world that has become global.

It follows that Arcadia is not as far from current reality as many would imagine. Nothing in Arcadia suggests that long-distance trading relations would be banned or discouraged. It simply suggests that, for a range of societal, cultural, and environmental reasons, local trade would be favored, within the bounds of reason.

But if these societal, cultural, and environmental reasons are so compelling, why is local trade threatened by the rapid expansion of global trade? Part of the reason has to do with trade restrictions and distortions, and part with trade openness.

As noted above, free trade is in many ways compelling, or could be within the right regulatory framework (for example, to restrict the formation of cartels and monopolies), but it exists only in slogans. The current patterns of international trade are distorted by a number of factors.

The first is the pattern of liberalization—trade in manufactured goods has largely been liberalized, while trade in agricultural products has not. Some negotiated restrictions exist on agricultural subsidies, but few exist on subsidies for energy or water. And even trade in sectors that have been substantially liberalized is distorted by tariff escalation and tariff peaks. If all traded goods and services had been liberalized in a balanced way, we would have something more closely resembling free trade than the highly skewed and distorted patterns in force at present, which reward some trading countries over others. This would certainly be to the advantage of developing country producers, who could then exploit the advantage of cheaper labor, but in itself it would not address the other issue facing Arcadia—the relaxing of the anti-trust legislation that used to prevent market dominance by a handful of powerful players. Arcadia cannot thrive in a world where access to capital, setting of standards, and influence over the making of rules is so dominated by a handful of large players. Competition policy would have to be considerably reinforced, with clear advantage given to local and small-scale producers and service providers.

The second relates to the range of still-permitted distortions to trade that, cumulatively, can have a massive impact on what is traded, by whom, and to whom. Energy and transport subsidies, for example, reduce the comparative advantage of local production by reducing the cost of transporting goods from the place of production to the market. If the full cost of energy and transport were paid, Kenya and Colombia might preserve their comparative advantage in cut flowers over the Netherlands, but the margins would be

considerably smaller. Subsidies for fishing craft and fishing technology; for landing, refrigeration, and storage facilities; and for research, as well as the shifting to the global community of the cost of resource depletion, give long-distance fishing an advantage over local and artisan fishing, and it would largely evaporate without this support. Examples abound, making nonsense of the notion that anything resembling free trade exists today.

The third factor relates to a range of trade-related but not essentially trade-based tools that favor large-scale players over smaller, local players. Compliance with packaging and labeling requirements, food safety standards, certification demands, and the like, often require a scale of operation beyond the reach of local producers. Again, cumulatively, these measures often militate against local production and distribution.

None of the above examples is intended to suggest that there is anything necessarily illegitimate about public or private sector measures that have a market impact, even when that impact is to distort trade. It comes down, once again, to what it is that we want. Is a transport subsidy good or bad? The answer—except to extreme libertarians—will always be dependent on the purpose for which the subsidy is afforded.

Under the Arcadia scenario, we would be working with an objective of local integration, community-building, scale, and solidarity. With that in mind, the current pattern of incentives and disincentives built into the domestic regulatory framework would have to be reconsidered and, no doubt, substantially altered, and the trading system would have to allow it. Far from allowing subsidies to the expenditure of energy in transport, all inducements would favor energy conservation, and the minimum expenditure on moving goods from the place of production to the market. It would reorganize the range of market measures affecting production and consumption to favor local production, local procurement, and local consumption. Most of this is the preserve of domestic policy making.

However, it would also require a change in the way the sacred principle of non-discrimination is applied in practice. The strong inclination in the WTO (though not supported by trade law) is to shun discrimination among "like" products on the basis of how they are produced. Arcadia would require close attention to the social and environmental impacts of production. It would require the market to reward production deemed favorable on social and environmental grounds.

There are two ways to do this. The first is to regulate—to dictate through laws, regulations, or standards the social and environmental requirements governing the production of and trade in goods and services. Such requirements could include calculation of the "ecological footprint" of the good or service traded and set out whatever level of social and environmental responsibility deemed necessary by society to meet its goals. Under this approach (not very popular in the current neoliberal paradigm), there is no need to endanger the central principle of non-discrimination. Most favored nation and national treatment standards would apply to all goods and services that met the agreed requirements (provided that the notion of "nation" is broadened to mean a trading entity). Thus, they would apply to trade among Arcadian trading entities as well as to trade between Arcadian and other trading entities.

The second approach would require overcoming the disinclination among WTO members (though not the Appellate Body) to address openly and honestly the question of

how the "likeness" test is applied. Arcadia might require an approach premised on considering the production process to be material to the nature of the goods that result from it. A carpet knotted by the tiny hands of young children could, under this approach, be considered not to be "like" a carpet knotted by machine. An organic strawberry could be considered not to be a "like product" when compared with a strawberry grown in an industrial-scale greenhouse with heavy use of energy, fertilizer, and pesticide.

To take this further, the full life cycle of a product could be taken into account in the "likeness" test so that an organic head of cabbage grown in Connecticut and sold in New York might not be deemed "like" another organic head of cabbage grown in Tokyo and sold in New York because of the high cost of transporting it the longer distance.

There is nothing in the WTO rules or in its way of working that precludes such an approach being considered. As with everything in this chapter, it depends on getting the sequencing right: first, we must decide what end the trading system is designed to serve, and then we must structure the system to carry us optimally towards that end. If the agreed end is Arcadia, plotting the road to Arcadia would present no insurmountable difficulties.

Would it lead, though, to the end of international trade and the subsequent shrinking of the world economy? The answer to that question is almost certainly no to the first part, though perhaps yes to the second, depending on how draconian the notion of Arcadia is.

A superficial glance at the Arcadia option suggests that it would not end international trade because Arcadia is founded on the notion of global solidarity among communities in all parts of the world. Social and environmental standards attained at the cost of social and environmental degradation elsewhere is incompatible with the vision of Arcadia. Thus, circumscribing the development opportunities of poor countries would be incompatible with the philosophy underlying Arcadia, and the law of comparative advantage would continue to apply (though see below). It would require a careful balancing act among the different "local" interests at play, locally and worldwide.

Further, few localities in the world are, or would consider it optimal to be, totally self-sufficient. It is unlikely that it would make sense for Iceland to grow coffee or bananas, or for Nauru to seek to produce copper, or for Chad to found an automobile industry. International trade would continue, no doubt respecting the principles of non-discrimination, transparency, and peaceful settlement of disputes, only within a much more rigid regulatory framework that gives precedence to social and environmental factors in production and thereby to local production and consumption.

Would the world economy shrink? Certainly the Arcadia scenario would bring about a sharp shift in trade patterns (from international to domestic, and no doubt from global to regional trade) and possibly an overall downturn in trade growth. It would not, however, necessarily lead to a downturn in the global economy, since it would favor job growth, the spread of small and medium-sized enterprises, and the diversification of production.

The central tenet of the Arcadia model is that global solidarity will co-exist with local solidarity. This is also its primary challenge, for, if the history of utopian notions of self-directed communities is any guide, the risk will be that the local emphasis will trump the global. If that were to happen, the adoption of the Arcadia model would more likely deprive the currently poorer parts of the world of the chance to trade their way to

development by selling their goods and services to richer buyers. With their local focus, Arcadians would be unlikely to notice this inconvenient fact.

This is quite possibly a fundamental flaw in the Arcadia model. Local identity, local production and consumption, local governance, and local aspirations carry the risk of generating a local mentality, in which the problems and prospects of far-distant communities slip from the public conscience and are broadly forgotten. If poor countries are placed at a deliberate trade disadvantage because the local market does not create sufficient demand to sustain growth, and because their goods lose out to local procurement requirements, have we really created a more equitable world? Or if the principle of global solidarity is to be the dominant one, does this not mean undermining the local focus of the Arcadia scenario? It is important not to forget the contribution that trade has made to development in one country after another, China being the most recent example. We must not condemn the currently disadvantaged to perpetual poverty because we disallow one of the most promising tools to lift them out of that poverty. Of course, in the process of a *Great Transition*, as the world becomes more equitable and the push for economic growth abates, the Arcadian balance between the local and the global would become more plausible.

Conclusion and Way Forward

This analysis has suggested that rules-based trade can be an important part of constructing the world we want. If the trading system is so ardently contested today, it is because trade tends to be seen as an end in itself, instead of a means to an agreed end. If it is accepted as a tool, a vehicle for doing something we wish to do, then it can be placed at the service of almost any future scenario.

It is striking that this analysis suggests that there is no fundamental incompatibility between the trading system—or more precisely between the notion of a rules-based, multilateral trading system—and any of the three scenarios under examination. Once it is accepted that trade must serve a wider goal, the rules can be structured in such a way as to help advance that goal—though of course this in itself would represent a major change.

The Agoria strategy envisages a world where the fundamental structures of capitalism are tempered by notions of the public good. That is, ostensibly, the model that the trade rules are intended to support, even if the reality is still far from that. But the Agoria model could be achieved by implementing the trade rules more centrally in line with the precepts of open trade. It simply requires a determination to re-examine the rules to ensure that they support the agreed goal, rather than having the rules support short-term commercial interests behind a smoke-screen made up of pious statements about the value of the trading system.

The Ecodemia strategy is, according to this author, problematic because it makes unwarranted assumptions about the centrality of solidarity in the human psyche. But it is not trade that would trip up the strategy if the decision was taken that it is the Ecodemia model that we want. Trade, investment, competition, indeed all economic relations take place within a framework established to maximize the good that they can do and to minimize the harm. Trade is managed, not allowed to flow anarchically. Should the decision be taken to manage it for workers' collectives with time on their hands, then there is no fundamental reason why the trade rules could not be mobilized in support of

that aim. It would require a sharp change in the regulatory framework, but not particularly in the rules governing trade.

The Arcadia strategy would, on the surface, appear to be the most incompatible with the current economic model, and, since trade liberalization is the flagship of the neoliberal model, going back to a more simple form of social organization where economic gain is not the central, motivating force of human activity could run a collision course with the trading system as it is conceived. This analysis argues that this is not necessarily so; nevertheless, it does suggest a fundamental contradiction between the notion of local social and economic organization and the notion of universal solidarity. Once again, if we decide and agree on what it is we want, there is no inexorable reason why the trade rules should run interference. The nature and content of trade may well change a great deal, but the fundamental principles should not need revision.

Indeed, whatever role there is for international trade in any of the above scenarios—presumably more for Agoria and Ecodemia than for Arcadia—we will surely want that trade to be open and rules-based, we will want the rules to be transparent and non-discriminatory, and we will prefer peaceful settlement of disputes to conflict. These principles are an easy fit within any of the three regulatory frameworks constructed to bring about the scenarios we seek, or indeed any that responds to a mosaic of these three coexisting. Depending on which is chosen, the pattern of economic signals will be different, the incentives will favor different types of action from the ones currently favored, and will reward different behavior—for example social and environmental responsibility, or human rights; the market will seek out and offer recompense to a different kind of framework from the one existing now. The extent to which the framework is closed or open, constraining or liberating, directive or loose, will depend on which mix of the options is chosen. The way in which trade relations operate will not, within that framework, vary as much as might be at first imagined.

So, if trade is not the obstacle, but a tool to be deployed in the service of a goal, how do we start down the road to that goal? The first step is to decide where it is we wish to travel. If we don't know where we are going, any road will take us there. But if we do know the destination, some itineraries will be better than others. Trade can be a powerful force to bring about or reinforce the sort of world we wish to see emerge. The fact that trade has not played as strong a role as it might have in bringing about a more equitable, more sustainable world, is the source of deep disappointment. The good that trade openness has done is not a sufficient consolation for its failure to do better. Trade has become the victim of traders, and it must be rescued from its mercantilist prison and restored to the driving seat, with a clear road-map, GPS, and a full tank of gas.

If we want a world that is fundamentally like the one where we now live, only that the gaping rift between what is supposed to happen in theory and what actually happens in practice is closed, then it is not difficult to plot the course that will take us there, expeditiously and without too much dislocation. It is a far more attractive world than the world we now live in, and doubtless a good deal more sustainable.

If we want a world of enterprise and competition, but not one dominated by large capital, raw economic power, and client governments, that itinerary, too, can be mapped. It would require deep changes to the regulatory framework, pattern of market signals, and distribution of the profits from enterprise, but it would not require any deep dislocation of

the trading rules. Indeed, trade would continue to be a key motor for the rededicated economy.

And if we should conclude that globalization has gone haywire, and that it has undermined the fundamental social glue that community identity offers, we can return to a simpler, more diverse and more local basis for social organization. This would require recalibrating the economy to reward certain patterns of behavior and to sanction others. It would require reorienting direct and indirect subsidies and introducing a range of new regulations. But, perhaps counter-intuitively, trade, and even international trade, would continue to play an essential role in the economy, and that trade could easily work on the same principles as the current, globally oriented trading system.

Indeed, we could choose any combination of the above three scenarios and still operate an open, rules-based multilateral trading system. If we decide where we want to go, trade and the rules that govern it will not hold us back. Indeed, if we get it right, trade can lead us there.

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