

# Foreword

Globalisation brings ever increasing movement across national boundaries of goods, services, investment, people and information, binding people and nations more closely together. It may not be a new phenomenon but it touches people's lives in ways not seen before. This has profound implications for the UK and for the rest of the world. Not surprisingly, it has been the focus of much recent debate.

This White Paper deals with the vital question of how we can harness the power of globalisation, making it a force for good not only in the UK but in every country, especially the developing world. It addresses the implications of globalisation both nationally and internationally, and sets out a vision of a world trading system which is fair as well as free.

The White Paper comes at an important time:

- the EU has recently expanded from 15 to 25 members creating the world's biggest trading bloc. The EU, and the new European Commission, who take up their posts in the autumn, will have a vital role in ensuring the benefits of globalisation are delivered both within Europe and beyond;
- the UK will next year assume the Presidencies of the EU and of the G8. These are important leadership roles. We have already made clear that Africa will be one of our top priorities for the G8 in 2005 – and this White Paper helps explain why;
- we are in the middle of the Doha Development Round of international trade negotiations. Whether or not a framework is agreed later this month, we need to continue to make a powerful case for a successful conclusion of these negotiations – one that ensures the Doha round fully lives up to its development promises.

The preparation of this White Paper has involved dialogue with many stakeholders in round table and bilateral discussions. Not all of them will agree with all its conclusions. But we value that dialogue, and want it to continue.

The issues at stake are large and important. Some four hundred years ago John Donne wrote: "No Man is an Island, entire of itself; every man is a piece of the Continent, a part of the main ...". Those words are now more true than ever.



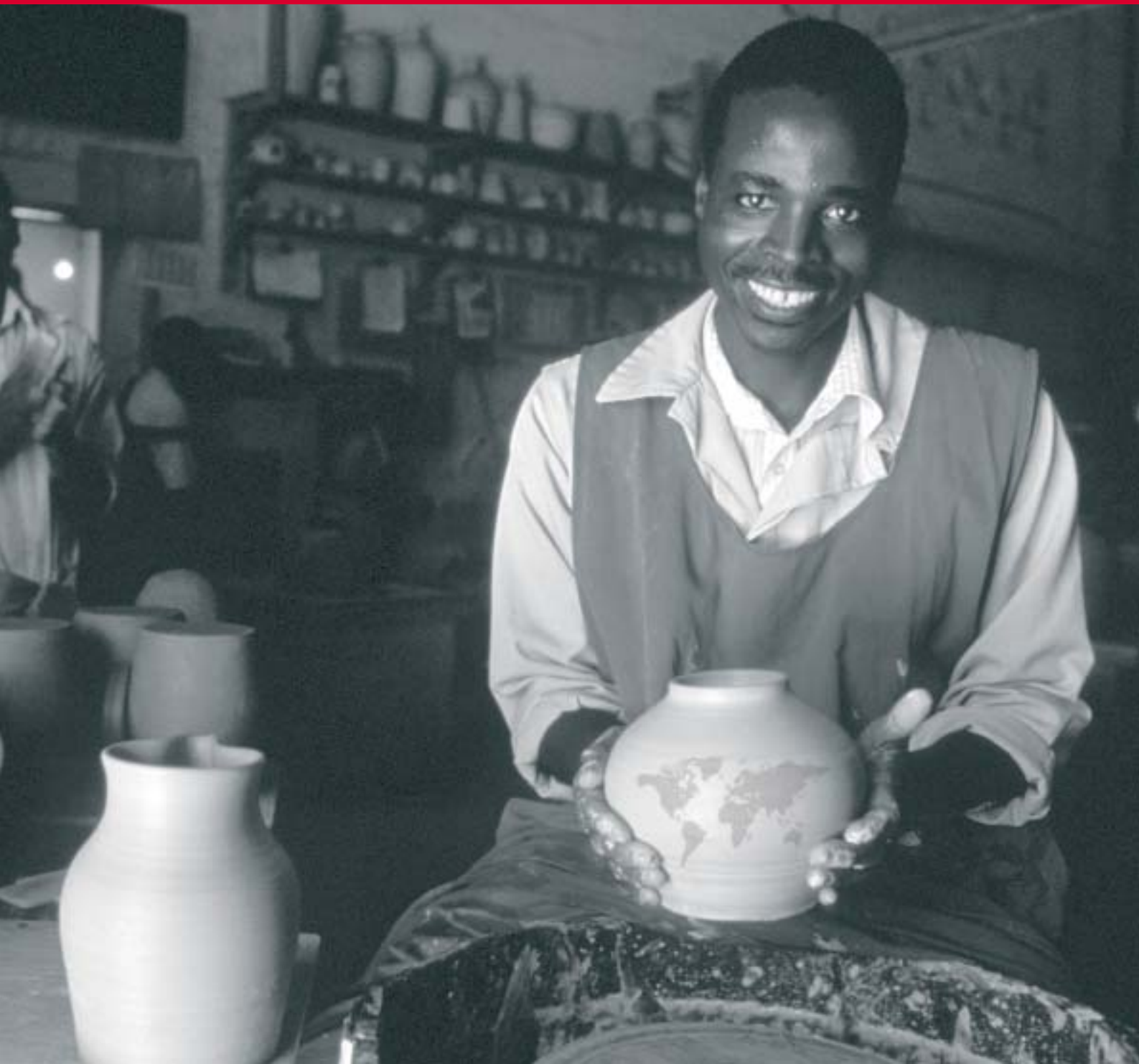
A handwritten signature of Tony Blair in black ink, with a horizontal line underneath.

Tony Blair

A handwritten signature of Patricia Hewitt in black ink.

Patricia Hewitt

# Introduction and summary



Globalisation – the process of growing inter-dependence between the economies and businesses of different countries – is a major force in the world today. It can be a force for good, raising standards of living at home and abroad and, crucially, enabling hundreds of millions of people in the developing world to escape from poverty. But globalisation will only be a force for good – Kofi Annan’s “globalisation with a human face” – if we make it so. *How* we can do so is the theme of this White Paper.

This White Paper follows on from the Globalisation White Paper of 2000<sup>1</sup>, the Competitiveness White Papers of 1998 and 2001<sup>2</sup> and the Sustainable Development Strategy of 1999<sup>3</sup>.

It brings together these strands of policy, in the context of a dynamic UK economy and an enlarged Europe. It sets out our vision of a world trading system that is fair as well as free. It deals with the impact of global trade and investment upon British workers and businesses; the implications for European reform and competitiveness; and the benefits and risks which growing global trade brings to the people of developing countries.

Our approach to international trade and investment is part of our broader commitment to sustainable development – making economic, social and environmental progress in such a way that we achieve development that meets the needs of the

present without compromising the ability of future generations to meet their own needs<sup>4</sup>.

Britain, as one of the world’s oldest and most open trading nations, the second largest investor in the world and a key player in the European economy, can and should play a leading role in promoting global investment and trade for the benefit of all.

### **The case for international trade and investment**

Trade can be a key driver of economic growth. By dismantling trade barriers and binding their economies together, the EU’s six founder members set out to end war on the continent and to give their people the chance of peace and prosperity. As new countries have joined the EU, they too have grown, benefiting from access to an expanding internal market. With the accession of ten new member states earlier this year, the European Union has become the largest international single market in the world. The challenge now is to reinforce the benefits of the growing internal market by reducing barriers to external trade and investment.

Freer trade brings significant economic benefits. Studies suggest that the WTO “Uruguay Round” negotiations, when fully implemented, will have boosted world income by anything between \$100 billion and \$500 billion annually (with developing countries gaining most in terms of percentage increases in their national income)<sup>5</sup>. Other studies

1 “Eliminating World Poverty: Making Globalisation Work for the Poor” (2000).

2 “Our Competitive Future: Building the Knowledge Driven Economy” (1998) and “Opportunity for All in a World of Change” (2001).

3 “A Better Quality of Life: a Strategy for Sustainable Development” (1999).

4 Definition taken from: “Taking it on: Developing UK Sustainable Development Strategy Together Consultation Paper” (DEFRA and Devolved Administrations, April 2004).

5 GATT: “The results of the Uruguay Round: Market Access for Goods and Services.” (1994).

have suggested that the current WTO Doha Development Agenda (DDA) negotiations could produce benefits amounting to between \$250 billion and \$600 billion annually<sup>6</sup>. The World Bank estimate that a pro-poor DDA outcome could reduce the number of people living on less than \$2 a day by 144 million, with sub-Saharan Africa seeing the greatest reduction – over 60 million.

Traditionally, governments have approached trade on the basis of promoting exports. In reality, countries benefit from both sides of trade – imports as well as exports. Openness to imports not only gives consumers and producers access to goods and services at lower prices, it also increases competition and innovation, helping boost the productivity and growth of the economy as a whole<sup>7</sup>. Openness to imports and expanding exports go hand in hand. This is why the mercantilist approach to negotiations, which regards increasing market access as a concession, needs to change. The dynamic benefits from imports, as well as the direct benefits to consumers and producers, means that opening our markets is directly in our own interests.

Similarly, the UK benefits both from inward and outward investment. The UK receives more foreign direct investment than any other EU country, helping create new jobs, finance new infrastructure, and provide access to new technologies. In addition, as the world's second largest supplier of foreign direct investment, the UK benefits – through the returns to our pension funds and other savings.

### The costs of protectionism

If we are serious about the benefits offered by international trade and investment we must be prepared to encourage others to open their markets, and also to dismantle our own remaining trade barriers – particularly in agriculture, the most heavily protected sector. We should do so not only because these barriers are locking some of the world's poorest people out of the global market, but –

crucially – because reducing protectionism is directly in our own interests.

At present, developed countries rightly stand accused of hypocrisy: preaching free trade to the rest of the world, imposing trade liberalisation upon developing countries through the IMF and World Bank, but keeping up their own trade barriers to protect their own agriculture and other special interests.

Protectionism is expensive, inefficient and ultimately ineffective, damaging taxpayers and consumers alike. The Common Agricultural Policy – which does serious damage to farmers in the poorest countries of the world – costs the EU's own taxpayers some €50 billion a year, plus another €50 billion in extra consumer costs through higher food prices<sup>8</sup>. Similarly, United States tariffs on steel imports (eventually lifted after the WTO ruled in favour of the European Union) not only damaged British steel companies and workers, but also imposed a significant tax on the US's own automobile industry, which had to pay higher prices for raw materials.

As trade barriers fall, it becomes even more important to make sure that they are not re-established in the guise of anti-dumping and other trade defence instruments. The EU needs to press for stronger WTO rules, rigorously enforced.

Protectionist fears generally rest upon the belief that international trade and investment are a zero-sum game. But one more job in India does not mean one less job in Britain. More growth in China does not mean less growth in Britain. Just as the UK benefited from economic growth in Spain, Greece, Portugal and Ireland – all far poorer countries than us when they joined the European Union – so too we will benefit as developing countries grow. Above all, it is morally right that developing countries should be able to lift their people out of poverty. But their growth is in our interest too: as people in the developing world become richer, we will all buy more from each other.

6 Potential Gains from Trade Reform in the New Millennium (Anderson K, Francois J, Hertel T, Hockman B and Martin W (2000).

7 "Trade and the Global Economy: the role of international trade in productivity, economic reform and growth" (DTI/HM Treasury, 2004).

8 "Trade and the Global Economy: the role of international trade in productivity, economic reform and growth" (DTI/HM Treasury, 2004), p7.

In the current negotiations on the DDA, reducing protectionism means an end to rich country export subsidies, cuts in trade-distorting domestic support, and significant opening up of our markets – in particular elimination of tariff peaks<sup>9</sup>. It also means dealing with tariff escalation – the hike in import tariffs on processed goods which prevents developing countries from turning coffee beans, for example, into valuable consumer products. No tariff on processed products should be higher than for the underlying products. On all these issues, the EU should take the lead.

### Coping with transition

The great British historian, Thomas Macaulay, observed in 1824:

*Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular.*

The reason is simple: the benefits from increased trade are general, but the pain from transition can be personal and deep. The Government recognises that it has a vital role to play not only in maintaining the economic policies which ensure that new jobs are created as old ones disappear, but also in helping individuals manage the transition from one job to another.

Anxiety about job losses in the new service sectors – like call centres – that seem to be threatened by ‘offshoring’ is understandable. However, by running an open and flexible economy we have ensured that, for the last seven years, every job loss has been matched, and more, by a job gain: in every region of the UK, unemployment is down and employment up, by 1.9 million jobs across our country as a whole. As technology and trade develop, the challenge is to step up the active support we offer to people to continue updating their skills, and to business to continue improving their competitiveness. People need to be able to gain job-focused skills training and improve their

chances of a sustainable, productive place in the workforce. The UK’s approach to achieving this is described in the Skills Strategy<sup>10</sup>. It sets out a strongly demand-led approach to skills development at all levels and across all sectors, meeting the needs of both employers and individuals so that they can compete in the international economy. The Government will continue its drive to invest in the skills, science, innovation and enterprise we need to make the UK flexible, competitive and productive.

The member states of the European Union face the same challenge. The EU must resist the temptation to look inward and fall back on outdated protectionist policies. Instead, the EU must look outward and embrace the opportunities that greater openness to trade can bring in terms of increased productivity and growth. To maximise these benefits, all EU member states must redouble efforts to meet the Lisbon targets<sup>11</sup> through an ambitious programme of structural reform, pushing ahead with the liberalisation of capital, product and labour markets.

### Trade reform and developing countries

Developing countries are heavily punished for the trade barriers and distortions that rich countries maintain. In agriculture alone, our barriers prevent developing countries from earning up to \$75 billion a year – significantly more than current aid flows<sup>12</sup>. Further gains for developing countries would also be realised by eliminating tariff peaks on labour-intensive manufactures.

In seeking to reduce their own trade barriers, developing countries face a complex set of problems. Their ability to respond to international market signals is seriously muted because of weak capacity – not just in trade-related infrastructure such as roads, ports and customs, but more importantly in the basic systems that help to keep populations healthy and well-skilled. Safety nets are also needed to help people adjust to new opportunities and to protect them when they cannot.

9 A tariff peak is the technical term for a very high tariff on a specific product. The common definition is a tariff in excess of 15% of the value of the product.

10 “21st Century Skills – Realising our potential”, TSO, CM 5810 July 2003

11 EU leaders agreed at the 2000 European Council in Lisbon to pursue policies to make the EU the most competitive knowledge-based economy in the world by 2010.

12 Trade & the Global Economy (DTI/HM Treasury) 2004.



The crucial starting point for developing countries is their own strategy for development and poverty reduction, within which trade reform packages must be carefully designed and sequenced. In implementing trade reforms, developing countries will face specific transition costs. The international community should therefore build on existing mechanisms, like the IMF's Trade Integration Mechanism, to tackle balance of payments problems that arise because of preference

erosion, including through grants for the poorest.

But the international community must also stand ready to provide substantial additional support to address the broader capacity constraints, helping people to become more productive by reducing their poverty and improving their health and skills. The UK has already proposed an International Finance Facility in order to meet the Millennium Development Goals.

## Social, environmental and other standards

Some controls on trade and investment are, of course, necessary. We do not believe in free trade in unsafe food, illegally logged timber or other products covered by multilateral environmental agreements (endangered species, CFCs, and so forth).

Consumers have the right to demand tough standards on food and product safety, whether imported or domestically produced. Equally, governments have the right to impose their own controls on economic activity in order to protect health and the environment. But there is always the danger that consumer protection, or other legitimate public policy aims – including environmental and social standards – will be abused for protectionist purposes. Within the European Union and the WTO, we need proper scrutiny of these non-tariff barriers to ensure that they do not become an unnecessary and unjustifiable restriction on trade.

Investors also need to abide by proper environmental and social standards. In many cases governments are able to agree and enforce effective standards – as in the UK. But in poorer countries the reality is different. Governments may not have the capacity to regulate effectively. Large multinationals can find themselves operating in poor countries whose GDP may be less than the revenue of the business itself.

We do not believe that the WTO should try to impose minimum social standards on investors: trade and labour is not part of the WTO mandate. However, we think that the WTO should develop closer links with the ILO and we will continue to push for reciprocal observer status between them. In addition the UK Government – by working with business, trade unions, consumers and NGOs, as well as with developing countries themselves – should promote the highest standards of social responsibility amongst UK-based multinationals, who can have a strong beneficial effect in job creation and poverty reduction.

## Free movement of people?

The European Union was founded upon the principle of the free movement of capital, goods, services **and people**. However, even the most ardent advocates of the free global movement of capital and goods rarely argue for free international migration. Indeed, the growth of immigration – whether within an enlarged European Union, or from asylum-seekers or other non-EU migrants – is a significant factor in the reaction against globalisation that is apparent in most of the developed world.

Properly managed, economic migration can benefit developed and developing countries alike. Overseas workers can help to fill our skill gaps and the money which migrant workers send home to developing countries is often far greater than the foreign aid those countries receive. The export of services by the temporary migration of skilled workers is an increasingly important aspect of negotiations in the WTO.

But there are two key points of concern. First, we must recognise and seek to tackle the concerns of developing countries and prevent targeted recruitment from developing nations who may themselves be facing shortages of healthcare and other essential staff. Second, we will not tolerate illegal migration. We must work with other governments to crack down on illegal trafficking and the exploitation of migrant workers.

## Challenges ahead

In conclusion, the growing inter-dependence between the economies and businesses of countries presents the UK, the EU and the international community with challenges and opportunities. The economic evidence demonstrates that with the right policy approach – openness to trade, a flexible economy and a focus on skills and enterprise – the UK stands to gain in terms of productivity, growth and jobs. Globalisation

also represents an unprecedented opportunity to integrate developing countries into the global economy on a fair basis, lifting millions out of poverty. Our vision of how these benefits can be captured is as follows.

#### **The UK needs to:**

- maintain to sound economic policies that ensure new jobs are created faster than others are lost, through operating an open and flexible economy;
- invest in education and skills so that our citizens are well equipped to operate in a modern, high-tech, economy;
- continue to encourage the EU to take a leadership role in multilateral negotiations, and to maximise the benefits from greater external openness; and
- continue to make the case for structural economic reform to advance labour, product and capital market flexibility in Europe, including by sharing experiences of domestic policy reform.

#### **The EU needs to:**

- develop more outward looking policies so that its economy is more open to trade, particularly through the multilateral process and enhancing the economic relationship with its largest trading partner, the US;
- push ahead with structural reforms and complete the liberalisation of product, capital and labour markets in order to meet the Lisbon agenda;
- ensure that no EU regulation is passed without a proper assessment and consideration of its impact on the EU's international competitiveness and jobs;
- agree that the impact on the EU's trading partners, especially poor developing countries, should also be taken into account;

- lead the way in showing the necessary flexibility to achieve an ambitious outcome to the Doha Development Agenda; The EU and other developed countries should reject the mercantilist approach to negotiations which treats market opening as "concessions".

- recognise the benefits to the EU itself of further liberalisation and reform, particularly in agriculture; and
- end the trade distorting effects of its policies under the Common Agricultural Policy (CAP). The EU and other developed countries should aim at:
  - simplifying their tariff systems and make them more transparent;
  - eliminating tariff escalation so that no tariff on processed products is higher than for the underlying products, allowing countries to add more value to basic commodities;
  - ironing out tariff peaks so that no tariff is higher than 15% of the value of the goods being imported
  - eliminating all forms of export subsidy;
  - eliminating trade-distorting domestic support;
  - ensuring proper scrutiny of non-tariff barriers so that they do not become an unnecessary and unjustifiable restriction on trade; and
  - bringing in tighter rules to combat harmful anti-dumping practices.

#### **The international community needs to:**

- reject once and for all the mercantilist approach to negotiation which treats opening markets as "concessions";
- recognise that trade represents an opportunity for developing countries to lift themselves out of poverty, but only if the developed world reduces barriers for products where developing countries have a comparative advantage;
- recognise the supply side constraints that many

developing countries face which would prevent them from realising the benefits of access to export markets, and address this through providing additional resources for investing in capacity, for example through the Government's proposal to double aid flows by 2015 with the International Finance Facility (IFF);

- support the reform efforts of developing countries in designing and sequencing trade reform packages in a careful way appropriate to their context, and integrated into their own development and poverty reduction strategies; and

- acknowledge and tackle the short term transition costs that certain countries face through, for example, loss of preference arrangements. The IMF's Trade Integration Mechanism is an important step in this direction, but we need to look at how we can provide guaranteed, credible and additional aid to support these countries in the transition to more productive sectors.

## The structure of the White Paper

The rest of this White Paper develops the themes sketched out in this introduction. Part 1 looks at the growth in international trade and investment and the reasons for the globalisation of business. It summarises the benefits of international trade and investment, drawing particularly on the EU experience. It considers the implications for rapidly growing developing market economies – particularly China and India – and for developing countries – particularly in Africa – that are being left behind. And it sets out the challenges posed by globalisation to the UK and other developed countries.

Part 2 deals with how we can ensure that globalisation benefits people in every nation and region of the UK. It argues for economic policies that will enable people to cope with the disruptions caused by global trade and new technologies. In

particular, it explains how the UK Government should support British-based business to adjust to more competitive global markets, for the benefit of UK consumers, employees, investors and pensioners, by supporting science and innovation to promote the development of new technologies and more efficient ways of working, and raising skills levels to create a more flexible and productive workforce.

Part 3 looks at how we can make globalisation a force for good in the developing world. It sets out the Government's long term vision of using trade policy to boost global prosperity, particularly amongst the poorest. It discusses our shorter term priorities in the Doha Development Agenda. And it highlights how trade policy must sit within our wider commitment to sustainable development.