

## **THE ECONOMIC AND SOCIAL IMPACTS OF GLOBALISATION: NEW ZEALAND'S PLACE IN A MULTILATERAL RULES-BASED TRADING SYSTEM**

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### **INTRODUCTION**

Whilst globalisation poses a range of challenges, it can also bring tremendous opportunities and benefits for a small, geographically isolated country like New Zealand. It must, however, be shaped, moulded and managed in a way that improves the lives of everyone affected. Careless or even reckless imposition of globalisation should be avoided.

One way in which globalisation can be properly shaped, moulded and managed as a positive force, particularly for smaller countries, is to ensure that the rule of law applies. A globalised economy needs globally agreed codes of behaviour and conduct. Without them, or more particularly when they are flaunted, the results can be disastrous. This can be achieved through the operation of a multilateral rules-based system.

This paper primarily focuses upon the impact of globalisation on New Zealand in the economic sense in relation to the rule of law and the operation of the World Trade Organization's (WTO's) dispute settlement system.

### **GLOBALISATION**

Globalisation is generally used to describe the changes in societies and the world economy that result from increasing international trade and cultural exchange whereby people around the world are more connected to each other than ever before. In this era, goods and services produced in one part of the world are increasingly available in all parts, information flows more quickly, global communication is common-place and international travel is more frequent. In other words, it describes the situation where national economies are increasingly more inter-dependent.

There are, of course, economic, political, social and cultural aspects of globalisation and it can constitute many things to many people and represent a range of challenges and opportunities.

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For the purposes of this paper, the focus is on the economic aspects of globalisation, particularly in terms of a multilateral rules-based trading system. In this regard, the International Monetary Fund (IMF) has described globalisation as the:

*"... growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology."*<sup>1</sup>

Since the establishment of the WTO at the close of the Uruguay Round of trade negotiations, the economic aspect(s) of globalisation has been associated with everything that the WTO is seen to represent (for better or for worse), including the promotion of trade liberalisation and elimination of discriminatory conduct in international trade.

To some, this process should be universally embraced because economic theories of comparative advantage suggest that free trade leads to a more efficient allocation of resources, with all countries (developed, developing and least developed) benefiting through increased trade, lowering of prices, higher employment and increased output. This was recently emphasised at the 2005 World Summit of the United Nations where it was noted that:

*"A universal, rules-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, can substantially stimulate development worldwide, benefiting countries at all stages of development. In that regard, we reaffirm our commitment to trade liberalization and to ensure that trade plays its full part in promoting economic growth, employment and development for all."*<sup>2</sup>

In the New Zealand context, there are assessments that the Uruguay Round of trade negotiations resulted in gains of over NZ\$9 billion to the New Zealand economy over the period 1995-2004 (primarily in the agriculture sector), with significant gains in employment over and above what it would have been without the Uruguay Round.<sup>3</sup>

But to others, the results of globalisation have not been as positive as initially predicted, with the interests of poorer countries and under-privileged sectors of economies being increasingly disadvantaged. Indeed, for some it is perceived that unrestricted free trade benefits those with more financial leverage at the expense of the poor.

Ultimately, any such debate is somewhat hollow because "beauty is in the eye of the beholder". For some, the glass of globalisation will be half-full, whilst for others the glass will be half-empty. The key is to appreciate the context in which you approach the issue.

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<sup>1</sup> See IMF, *World Economic Outlook*, 1997.

<sup>2</sup> See *2005 World Summit Outcome*, September 2005, para 27.

<sup>3</sup> See, for example, *An Assessment of the Gains to New Zealand from the Uruguay Round of Trade Negotiations*, prepared by the Ministry of Agriculture and Forestry and the Ministry of Foreign Affairs and Trade, 2003.

As Thomas Friedman has observed:

*"... [globalisation] can be incredibly empowering and incredibly coercive. It can democratize opportunity and democratize panic. It makes the whales bigger and the minnows stronger. It leaves you behind faster and faster, and it catches up to you faster and faster. While it is homogenising cultures, it is also enabling people to share their unique individuality farther and wider."<sup>4</sup>*

Trade liberalisation and globalisation therefore need to be approached in the right way for everyone to benefit. The World Bank appears to have acknowledged this where it has argued that trade liberalisation needs to be approached in a more uniform manner. Thus, if:

- all developed countries cut tariff peaks to 10% in agriculture and to 5% in non-agriculture sectors;
- all developing countries cut tariff peaks to 15% in agriculture and to 10% in non-agriculture sectors; and
- complemented this with an end to agricultural export subsidies and decoupling of domestic support,

the gains for developing countries could be nearly US\$350 billion in additional income by 2015, and for developed countries nearly US\$170 billion. According to the World Bank, this would mean that 8% fewer people would be living in poverty by 2015 - 140 million fewer people living below US\$2 per day.<sup>5</sup>

The World Bank is not, however, blind to the fact that there will be some pain along the way for some sectors and communities. For example, whilst the pursuit of trade liberalisation in the sugar markets would result in:

- estimated global welfare gains (the sum of producer, consumer surpluses and tax revenues) of US\$4.7 billion;
- a boost in sugar trade by about 20%; and
- a real income gain of almost US\$1.6 billion for Brazil,

some countries (*eg* Mauritius) could lose significantly.<sup>6</sup>

The key is to proceed in a way that recognises that the likes of Mauritius is not neglected in the process. The challenge is to identify the range of commitments that make economic sense and support development.

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<sup>4</sup> See Thomas Friedman, *The Lexus and the Olive Tree*, 2000.

<sup>5</sup> The World Bank, *Global Economic Prospects - Realizing the Development Promise of the Doha Agenda*, 2004.

<sup>6</sup> The World Bank, *Global Economic Prospects - Realizing the Development Promise of the Doha Agenda*, 2004.

## MULTILATERAL RULES-BASED TRADING SYSTEM

The United Nations' Millennium Development Goals - which are focussed upon fighting poverty - highlighted that success in eradicating poverty is dependent upon an open, multilateral, rules-based trading system.<sup>7</sup>

Indeed, it is through a multilateral rules-based trading system, best epitomised by the WTO, that globalisation can provide tremendous opportunities and benefits to smaller countries like New Zealand. But the rules must obviously be designed to reflect the interests of all countries, not just the more powerful.

It is, of course, important to recall what the WTO is. It is essentially a multilateral negotiating forum which provides its member countries with the opportunity to:

- reduce trade barriers and improve access to each others' markets;
- establish and improve rules governing international trade;
- eliminate discriminatory conduct in international trade;
- consider developments in international trade; and
- adjudicate disputes between the member countries.

The WTO does not write the rules itself. Rather the rules tend to reflect the consensus of its members. It is the members themselves who can change the rules or create new ones through negotiation. The final decision as to whether a country commits to further liberalisation or not rests with each individual member. Governments are not forced into trade liberalisation by the WTO.

The WTO:

- provides the "common institutional framework" for the rules that have been agreed upon,<sup>8</sup> and
- is intended to "facilitate the implementation, administration and operation, and further the objectives" of the rules that its members have agreed to.<sup>9</sup>

For a country like New Zealand, the WTO provides a sense of security because a multilateral rules-based trading system protects the smaller players that tend to have limited ability to influence the policies of larger, more powerful countries. Such rules can reduce uncertainty by placing mutually agreed limits on the policies that governments may adopt.

But there will always be limits to this. Even in a multilateral system which makes decisions by consensus, the ability of the larger, more powerful countries to better protect their own interests will still exist. This has perhaps been best illustrated by the historical evolution of the rules relating to the trade in agricultural products. It took over 50 years for agriculture to be brought within the multilateral trading system and this tended to reflect (and still reflects) the heightened sensitivity and protectionism that relates to agriculture in many of the larger, more powerful countries.

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<sup>7</sup> See, for example, the *United Nations Millennium Declaration*, 18 September 2000, para 13.

<sup>8</sup> See Article II.1 of the *Marrakesh Agreement Establishing the World Trade Organization (the WTO Agreement)*.

<sup>9</sup> See Article III.1 of the WTO Agreement.

Obviously, the challenge for a country like New Zealand, as well as all those other countries with an export-orientation in agriculture, is to become more actively involved in the negotiations and better influence the development of rules. During the Uruguay Round, the Cairns Group was very successful in doing this and, in the context of the current Doha Negotiations, the Cairns Group and the G-20 are trying to achieve the same thing.

The 2005 World Summit highlighted the need to enable developing countries to "participate more effectively in and benefit from the process of globalization".<sup>10</sup>

## **DISPUTE SETTLEMENT SYSTEM**

While getting the rules right is important, enforcement and accountability are far more important for smaller countries. In this regard, the WTO's dispute settlement system provides significant opportunities for countries like New Zealand.

As the WTO's *Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)* indicates:

*"... [t]he dispute settlement system of the WTO is a central element in providing security and predictability to the multilateral trading system".<sup>11</sup>*

All countries within the WTO have the opportunity to initiate a dispute against any other country when they perceive that that country is in breach of a WTO rule. The DSU establishes that:

*"The prompt settlement of situations in which a Member considers that any benefits accruing to it directly or indirectly under the covered agreements [the rules] are being impaired by measures taken by another Member is essential to the effective functioning of the WTO and the maintenance of a proper balance between the rights and obligations of Members."<sup>12</sup>*

The dispute settlement system encourages countries to comply with their obligations. WTO member countries agree not to take unilateral action when they think their rights have been violated or impinged upon. Instead they raise their grievances through the WTO dispute settlement system.

For New Zealand, this has allowed us to take on a range of larger, more powerful countries and enforce our rights - a scenario that would not be able to occur outside of a multilateral, rules-based environment, where "might is right" and the leverage of smaller countries cannot match their larger, more powerful trading partners. Two specific cases clearly illustrate this point.

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<sup>10</sup> See *2005 World Summit Outcome*, September 2005, para 19.

<sup>11</sup> See Article 3.2 of the DSU.

<sup>12</sup> See Article 3.3 of the DSU.

First, New Zealand (in conjunction with Australia) initiated a dispute against the United States (US) in relation to a safeguard that was imposed on imports of lamb from New Zealand and Australia. The panel and then the Appellate Body (AB) agreed that New Zealand's (and Australia's) rights had been impinged, with the safeguard deemed inconsistent with WTO rules. After considering its options, the US withdrew the safeguard measure.

And second, New Zealand initiated a dispute against the European Communities (EC) in relation to a ruling by the EC that butter manufactured by the Ammix and spreadable butter-making processes were not eligible for New Zealand's country-specific tariff quota (CSTQ) for butter that had been obtained from the EC during the Uruguay Round. After extensive bilateral discussions, the EC refused to alter its ruling, which left New Zealand no choice but to seek redress through the dispute settlement system. A panel was established and had issued its interim decision. Before the decision was made final, the EC came back to New Zealand with a proposal to explore a settlement of the dispute. These settlement negotiations were eventually successful and a mutually agreed solution was reached. As part of the settlement, the EC passed a regulation confirming that New Zealand exports of Ammix and spreadable butter qualified for New Zealand's CSTQ.

It is difficult to believe that New Zealand would have been able to secure the results that it did with the US and EC on the two disputes outlined above without the security that the WTO dispute settlement system provides smaller countries.

This should not, however, be seen as indicating that the dispute settlement system provides smaller countries with the requisite "silver bullet" in all situations. While panel (and/or AB) decisions are adopted by the WTO members, the defendant may decide not to fully implement or conform with the decision. This only occurs in a minority of instances, but reflects the fact that there will be certain situations where a country will exercise its sovereign right not to implement or conform. All too frequently these are situations which address a domestic policy instrument that is politically sensitive and/or important to the defendant. For example, the ongoing disputes relating to the EC's regimes relating to trade in bananas and hormone-treated beef.

If the defendant refuses to change its illegal law or measure, the complainant can impose trade sanctions - by raising import barriers - against the defendant equal to the monetary harm that has been caused by the actions of the defendant. Such sanctions are supposed to punish the defendant for flouting its obligations and encourage it to implement or conform.

These sanctions are not imposed by the WTO itself, but are at the discretion of the complainant. The likelihood that smaller countries can credibly use the sanctions - the ultimate threat that can be made against a WTO member that does not comply with a panel (and/or AB) decision - is minimal because the raising of import barriers by a smaller country will tend to have little impact on the larger, more powerful country. As such, pressure to comply with such decisions is largely moral. And, in practice, the system has worked rather well, in that recourse to trade sanctions has rarely been required to enforce dispute settlement decisions.

In the overwhelming number of disputes, the country that has been found in breach of its WTO obligations has modified its position enough to satisfy the complainant. The reason for such compliance is not due to any coercive power, but rather the realisation that it is in the long-term interests of all countries to follow a set of rules that promote mutual economic gain through trade liberalisation.

## **NATIONAL SOVEREIGNTY**

The establishment of a multilateral, rules-based system for international trade has been a tremendous achievement for New Zealand and other countries that lack the size, influence and economic and political weight of our larger, more powerful trading partners. Under the WTO, we have agreed to develop new rules by way of consensus and settle disputes through mutually agreed procedures, not through bluster and threats. No new obligations can be imposed on New Zealand without its consent.

In terms of our national sovereignty, membership of the WTO is not a surrender of it, but the exercise of it - an acceptance of obligations in exchange for a similar acceptance of obligations from other countries. For a country like New Zealand, the rule of law established for international trade by the WTO actually strengthens our sovereignty because it protects our independence from bilateral bullying. After all, the right to enter into an international treaty - and be legally bound by it - is a vital aspect of any nation's sovereignty.

## **CONCLUSION**

Globalisation, particularly in terms of what the multilateral rules-based trading system offers, can provide tremendous opportunities and benefits for a small, geographically isolated country like New Zealand.

The key is to ensure that the rules are shaped, moulded and managed in a way that benefits everyone, not just the few. This is obviously something that New Zealand a range of other countries are focussed upon in the context of the current Doha negotiations.

Following on from this, effective enforcement and accountability of the rules play a significant role in protecting the right of smaller countries like New Zealand.

Finally, it needs to be recalled that whilst the multilateral rules-based trading system is not perfect, it is considerably better than the "law of the jungle" whereby the smaller countries are at the mercy of their larger, more powerful trading partners.