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978-0-521-16900-4 - Peace and Prosperity Through World Trade

Fabrice Lehmann and Jean-Pierre Lehmann

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Peace and Prosperity through World Trade

The International Chamber of Commerce (ICC) was created in 1919 by business leaders who described themselves as ‘merchants of peace’ and whose motto was ‘world peace through world trade’. Since then a number of initiatives, including the founding of the World Trade Organization (WTO) in 1995, have provided the proper regulatory conditions for a dramatic increase in world trade. This has generated unprecedented growth and allowed many countries to enjoy great gains in wealth and welfare. Yet despite these gains we are still far from achieving the ICC’s goal of world peace through world trade. This book provides a broad overview of the forces that shape international trade and global interdependence, showing business leaders and entrepreneurs how we can address the shortcomings of the multilateral trading system. Most importantly, it shows how we can turn international trade into one of the key global instruments to achieve peace and prosperity in the twenty-first century.

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JEAN-PIERRE LEHMANN



CAMBRIDGE
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CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore,
São Paulo, Delhi, Dubai, Tokyo, Mexico City

Cambridge University Press
The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org
Information on this title: www.cambridge.org/9780521169004

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First published 2010

Printed in the United Kingdom at the University Press, Cambridge

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data
Peace and prosperity through world trade / [edited by] Fabrice Lehmann,
Jean-Pierre Lehmann.

p. cm.

Includes bibliographical references and index.

ISBN 978-1-107-00042-1 (hardback) – ISBN 978-0-521-16900-4 (pbk.)

1. International trade. 2. International relations. 3. Peace.

4. Economic development. I. Lehmann, Fabrice. II. Lehmann,
Jean-Pierre, 1945–

HF1379.P43 2010

382–dc22

2010033022

ISBN 978-1-107-00042-1 Hardback

ISBN 978-0-521-16900-4 Paperback

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INTERNATIONAL CHAMBER OF COMMERCE

This volume was commissioned by the ICC Research Foundation to mark the ninetieth anniversary in 2009 of the founding of the ICC.

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Foreword

PETER D. SUTHERLAND

This thought-provoking collection of essays, looking at the prospects and challenges for the next decade, could hardly be more timely. As 2009 drew to a close, the scale of the collapse in world trade in that year was alarming.

It is rare for the value of global trade to decline at all. Yet in the first half of 2009, it was a third lower than in the same period the previous year. There has been nothing like this since the Great Depression of the 1930s, when the downward spiral of trade contributed to the political instability of that decade.

Historical parallels are not exact, and there are features of the modern global economy which help explain the sensitivity of international trade to recession. However, it is important not to forget the inevitable links between what happens in the economic and political spheres. This is after all what motivates the mission of the ICC to act as the ‘merchant of peace through world trade’.

There are two characteristics of the world economy of today which have made the recent collapse in trade flows so severe.

The first is the way supply chains in many sectors now operate across national borders. Not only high-technology products such as mobile phones but even shoes and clothing are manufactured in a global network. The consequent trade in intermediate goods used to make final products means that a drop in consumer demand translates into a much bigger decline in world trade flows compared with the past.

The second feature is the increased synchronization of major economies, compared with previous recessions. The decline in trade in each country has amplified the declines elsewhere.

These features do mean that trade should bounce back quickly once the economic recovery is under way. But this is not something to be complacent about. A resumption of healthy trade growth, with

its beneficial impact on growth, jobs and incomes, is at risk from protectionism.

This is where the interplay with politics is likely to be decisive. On the one hand, the extensive interconnectedness of the world economy makes it unlikely that there will be anything like a repetition of the catastrophe of the 1930s. It is hard to believe that even the most populist government would want to destroy the supply chains which have helped their own businesses become more productive and given consumers everywhere wider choice and lower prices.

On the other hand, the severity of the recession resulting from the financial crisis has tempted many governments to announce measures which are either directly protectionist or indirectly so. From the 'Buy American' provisions in the US fiscal stimulus package to the tariff increases implemented or announced by several countries, these have taken a range of shapes. Unfortunately, the effects are the same. The growing number of measures – especially those introduced by major trading countries such as the USA – will make it harder for trade volumes to recover quickly.

So there is a clear challenge of political leadership in the next decade. It is vital for politicians and business executives alike to avoid the illusory attractions of flag-waving, which only ever delivers short-term benefits to a minority of firms and workers.

There is also a challenge for business leadership. One of the consequences of the financial crisis and recession is widespread scepticism about the benefits of markets and globalization. The fact that much of what has been said and written in this vein is either exaggerated or plain incoherent is no excuse for ignoring the need to ensure that the benefits of trade are widely shared. Business leaders must engage in trying to find growth paths which are sustainable – environmentally, politically and socially. This debate began well before the recent crisis, and many businesses have been actively engaged in it; but the need to tackle the difficult issues it raises is acute.

All of these subjects, from the global balance of economic power to appropriate governance structures for world trade, from environmental sustainability to social inclusivity, are addressed in the contributions in this volume. The contributors offer stimulating and sometimes provocative views about what the next decade will bring. As we move towards the hundredth anniversary of the ICC in 2019,

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we should remember that business is one of the most influential forces for change in the world, a responsibility to be taken more seriously than ever in the light of the recent challenges.

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Preface: the ICC vision

VICTOR FUNG

In 1919, in the wake of World War I, a group of business leaders from Belgium, Italy, France, the UK and the USA, met in Atlantic City, New Jersey, to found the International Chamber of Commerce (ICC). They identified themselves as ‘merchants of peace’ and adopted the motto ‘world peace through world trade’. The following year, under the aegis of the French statesman and entrepreneur Etienne Clémentel, the ICC established its headquarters in Paris, where it has remained ever since. The ICC mission from its inception was to champion an open global economy as a force for economic growth, job creation and prosperity. These three elements, reasonably distributed, are the fundamental ingredients for peace.

In the tenth year of the ICC, in 1929, the Great Depression occurred and in the twentieth year, 1939, World War II broke out. In the intervening decade the global economy contracted dramatically as countries engaged in trade wars and unemployment soared. Though the causes of World War II are obviously multiple and complex, there can be no doubt that the breakdown of trade and the surging protectionism that ensued were important causal factors.

On the thirtieth anniversary of the ICC, in 1949, the world economy seemed to be back on track. Following the first round in Geneva in 1947 that formally established the GATT (General Agreement for Tariffs and Trade), a second round was launched in the French city of Annecy, which proceeded to expand membership and reduce tariffs. The ICC vision was re-enforced by the establishment of a rules-based multilateral trading regime, to which it has remained completely committed throughout the ensuing decades.

One of the most remarkable achievements of the post World War II world has been the exponential increase in trade. This not only brought great prosperity to the ‘familiar’ actors in world trade – North America, Western Europe, Japan, Australia and New Zealand – but also in the course of the 1970s there emerged the ‘newly industrializing-economies’

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(Hong Kong, Korea, Singapore and Taiwan), whose industrialization was driven considerably by trade.

These forty years witnessed numerous violations of key GATT principles – mainly that of non-discrimination – and the application of new forms of protectionism. For example, in the mid/late 1980s the USA and the EU imposed on Japan ‘voluntary export restraints’ (VERs) in various sectors including automobiles and semiconductors.

Fundamentally, however, the system worked and many parts of the world that included GATT members prospered.

In 1989, the seventieth anniversary of the ICC, the destruction of the Berlin Wall heralded the emergence of an open global market economy that seemed indeed to correspond perfectly to the ICC founding vision of ‘world peace through world trade’. The Cold War ended and markets opened virtually everywhere. With the conclusion of the Uruguay Round in 1994 the World Trade Organization (WTO) was formerly established on 1 January 1995. In the ensuing decade-and-a-half, the membership of the WTO has expanded enormously, notably with the accession of China in 2001, with the result that today only a very small minority of countries are neither members nor countries seeking accession. On that basis the World Trade Organization is truly the *World* Trade Organization. Furthermore, in addition to the traditional GATT negotiating function, the WTO has a Dispute Settlement Unit that has significantly increased its aura and its clout as not only a rules-making body, but also a rules-enforcing body. In the course of the decade 1989 to 1999 it seemed as though globalization had embarked on an ‘irreversible’ course.

1999–2009: a decade of high growth and lost opportunities

In the ninetieth year of the founding of ICC, 2009, talk of globalization being ‘irreversible’ had ceased, while the term ‘de-globalization’ increasingly became current in describing possible future scenarios.

In fact, it has been a paradoxical period. On the one hand, until the global recession of 2008–2009, the world economy and especially world trade experienced exponential growth, while the membership of the WTO continued to increase, with new members such as not only China, but also Vietnam, Saudi Arabia and Ukraine. On the other hand, the world trade policy process and agenda have badly stalled. The attempt to launch a new Round in Seattle in 1999 ended in an

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unqualified fiasco. A Round was launched in Doha two years later, in December 2001, though the impetus for this came mainly from the initial aftershocks of the 9/11 cataclysm. At the following WTO ministerial meeting, in Cancún in 2003, it was clear that there were deep entrenched problems of multilateral trade policy immobilism.

It is not the purpose here to analyse the causes for the paralysis in the Doha Round talks that have seen several years of procrastination and repeated breakdowns. There are clearly, however, four major elements that are actively playing an influentially negative role.

The first is that this period has witnessed unprecedented change in the nature and structure of the global economy. The major dynamic has been the tremendous surge of the emerging economies in the global market. There has been a clear problem on the part especially of the established global powers – the EU, USA and Japan – to adjust to this new world; but problems of adjustments also apply to some of the major emerging economies.

The second is that the problem of adjustment has been compounded by an absence of vision and direction on the part of the political leaders. It has been repeatedly and rightly said that the Doha Round is unlikely to be concluded without political leadership. With the last WTO ministerial meeting (at the time of writing) having been held in Geneva in November 2009, it is clear that political leadership remains conspicuous by its absence.

The third is that there is an element of institutional sclerosis. The WTO is badly in need of reform, especially with respect to the decision-making process. There would appear, however, to be a Catch-22 situation in that without reform the WTO Doha Round may be impeded from reaching conclusion, yet conclusion of the Doha Round may be needed to bring about reform.

The fourth is the most fundamental and the most elusive. What is notably lacking in the international community today is trust. It was repeatedly said that if the global community could not cooperate on the trade agenda – which is relatively straightforward – it seemed improbable that it would succeed in cooperating on far more complex challenges, notably climate change. The outcome of the Copenhagen Climate Change Conference in December 2009 has unfortunately proved this assumption to be correct.

The decade that seemed to be marked by unprecedented growth and optimism came to an end with the worst economic crisis the

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Victor Fung

world has seen since the 1930s. Instead of creating wealth, the decade ended with its significant destruction.

From the trade perspective, while it is highly disappointing that the trade policy agenda remains mired in paralysis, the great relief is surely the fact that contrary to justified apprehensions the world did not fall into the 1930s trap of an outbreak of protectionism and trade wars. The very existence of the WTO must account in a significant way for the absence of this negative outcome – for the fact that the protectionist dog did not bark.

Going forward to 2019 – the ICC’s hundredth anniversary

If the Great Recession of 2008–2009 failed to result in trade wars and surges of protectionism, it would be prematurely dangerous to claim victory and especially to fall into a complacency trap. The world trade system enters the second decade of the twenty-first century in a turbulent and fragile state. Protestations from global government leaders to the contrary notwithstanding, there are good reasons to suspect that 2010 will not see the conclusion of the Doha Round. Trade tensions between China and the USA are pretty much bound to intensify. It is of course in the interests of both nations and of the global trading system generally that these tensions should be contained and indeed resolved. The absence of a strong multilateral framework, indeed the weakness of the WTO, in that context, as in many others, must be matters of concern.

The multilateral trading system is further undermined by the growth, proliferation and intensification of PTAs (preferential trade agreements). As the multilateral system appears bogged down, nations and indeed whole regions have moved to substitute it with a plethora of bilateral trade arrangements. Initially it was hoped by some policy makers that this would have the effect of bringing about ‘competitive liberalization’ and thus provide ultimately momentum to the multilateral agenda. This assumption has proved woefully wrong.

The ICC vision remains constant in seeking to bring about economic growth, job creation, prosperity, and hence peace, through an open global market economy based on a multilateral trading regime. This was the vision in 1919 and it is the hope that it will reflect global reality when the ICC celebrates its hundredth anniversary in 2019. In addition the ICC vision has come to encompass the other

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key issue of the twenty-first century, the climate change agenda. A robust rules-based open global trading system will definitely be a critical constructive force in ensuring greater global sustainability.

To achieve this vision, the global agenda for the next decade must address the four impediments I noted above. First, economies, both industrialized and emerging, must adjust to the new realities of the twenty-first century world economy. Second, political leadership and political will must be brought to bear on the trading agenda. Third, there is an imperative of institutional reform in the WTO to make the process more responsive to current transformations and challenges. Fourth, we need to restore trust.

It is a very challenging agenda. But what are the alternatives? In achieving this vision and meeting this challenging agenda for the next decade, the business community, through the ICC, must play an active and constructive role.

Cambridge University Press
978-0-521-16900-4 - Peace and Prosperity Through World Trade
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978-0-521-16900-4 - Peace and Prosperity Through World Trade

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Historical overview and dynamics

JEAN-PIERRE LEHMANN

To Europeans the dawn of the twentieth century was seen as a period of great progress and great prospect; as the ‘golden age’ of globalization. The mood is captured in the famous phrase by Sir Norman Angell in his best-selling book, *The Great Illusion*, published in 1910: ‘international finance is now so interdependent and tied to trade and industry, that political and military power can in reality do nothing’.

The great illusion was shattered four years later as Europe and the world entered a protracted period of seemingly endemic wars and revolutions that lasted well into the twentieth century, finally coming to an end with the destruction of the Berlin Wall and the subsequent collapse of the Soviet Empire.

By the beginning of the twenty-first century Europe achieved a level of peace and prosperity that could have been dreamed of in 1900, but would have appeared totally unfathomable a decade-and-a-half later and for the ensuing decades. Imagine being told in 1975, for example, that in thirty years Estonia would be a member of the European Community. Unimaginable!

Yet it did come to pass that by the end of the turbulent twentieth century, the vision of the founders of the International Chamber of Commerce (ICC), ‘world peace through world trade’, had finally been translated into reality for Europe. For the rest of the world, though prospects are encouraging, the jury of history remains out.

While perspectives in Europe at the dawn of the twentieth century may have been brimming with enthusiastic self-confidence, it has to be said that perspectives from China – and indeed most parts of the non-European world – were rather different. In 1900 China was in the throes of a major upheaval – known as the Boxer Uprising – which involved both civil strife and foreign invasion. This conformed to a pattern set some six decades earlier with the outbreak of the first of two Opium Wars and that was sustained until the middle of the twentieth century.

Cambridge University Press

978-0-521-16900-4 - Peace and Prosperity Through World Trade

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It was the opium trade that ‘opened’ China, brought it into the Western imperial sphere and proceeded both to impoverish and inflict huge physical damage on the country. This is not to say that trade was entirely responsible for China’s demise, but it would have been difficult in 1900 – or indeed in 1919 when the ICC was founded and China was still being exploited by multiple foreign powers, including its neighbour, Japan – to convince the Chinese that trade is a win-win proposition, let alone that world trade engenders world peace!

The point to emphasize is that trade per se is neutral, neither good, nor bad, and, as history shows, as often engendering war as engendering peace. What matters is what is traded and how trade is conducted. Clearly trading in people – the slave trade – through plunder is both morally wrong and both cause and consequence of warfare. There are many examples that can be cited well into the twenty-first century: the drug trade in Colombia, the diamond trade in Africa, the arms trade in the Middle East and elsewhere are among some of the most egregious, but by no means exceptional, ones of trade contributing to human misery.

The ‘sutra’ of how trade should be properly conducted comes from the famous words of Cordell Hull enunciated in 1937 – at the height of the pre-war trade wars: ‘I have never faltered, and I will never falter, in my belief that enduring peace and the welfare of nations are indissolubly connected with friendliness, fairness, equality and the maximum practicable degree of freedom in international trade.’

So freedom, yes, but not without friendliness, fairness and equality. These fundamental ingredients have much improved in the last several decades since the founding of the GATT in 1947; but they are still not conspicuous by their presence in 2010. To cite one very accusatory figure – taken from the ‘Trade Fact of the Week’ of 14 October 2009 by Edward Gresser, one of the authors of this volume – the tariff rates imposed by the USA on imports from three of the world’s poorest countries, Cambodia, Bangladesh and Pakistan, are respectively 16.7%, 15.3% and 9.9%, while the tariff rates imposed on the UK and France, two of the world’s richest countries, are 0.6% and 0.8%. The USA earns twice as much revenue from tariffs imposed on Bangladesh than it does from the UK – US\$392 million versus US\$180 million – on a value of less than 10 per cent of imports – US\$2.56 billion for Bangladesh versus US\$30 billion for the UK. This could

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hardly be described as friendly, fair, or equal. Such data demonstrates how much further we need to go to meet Cordell Hull's strictures.

Cordell Hull was a major architect of the post-war global multi-lateral trade system. As he rightly pointed out at the time: 'a revival of world trade [is] an essential element in the maintenance of world peace. By this I do not mean, of course, that flourishing international commerce is of itself a guaranty of peaceful international relations. But I do mean that without prosperous trade among nations any foundation for enduring peace becomes precarious and is ultimately destroyed.'

One of the great innovations of post-war institution building was to establish rules for the conduct of international trade; hence reference is made to the rules-based multilateral trading system. The rules and the adoption of the principle of non-discrimination are meant to try to ensure that the evil practices of trade will not be resorted to and that so far as possible the aim will be to achieve 'friendliness, fairness and equality'. Fair trade, therefore, must take precedence over free trade.

The system that was established by the GATT in 1947, by the successive rounds of trade liberalization and by the founding of the WTO in 1995, has provided the proper regulatory conditions for a dramatic increase in world trade, which, in turn, has generated unprecedented growth and allowed many economies, such as Turkey, Hong Kong, Korea, Taiwan, Chile, the Association of Southeast Asian Nations (ASEAN) countries, and more recently China, Mexico and Brazil, that have participated in global trade, to enjoy great gains in wealth and welfare. However, we have clearly not yet arrived at the 'world peace through world trade' destination. The long-term paralysis of the Doha Development Agenda and the unwillingness of the rich countries to level the trade playing field demonstrate how seemingly insuperable obstacles remain.

As we enter the second decade of the twenty-first century, with virtually all the countries of the world having joined the global market – in stark contrast to the situation that prevailed throughout much of the second half of the last century – and having acceded to the WTO, it is an appropriate time for reflection on the dynamics and nature of trade per se and the prospects for the future. How will historians write about this period in coming decades? Are we moving closer to the vision of world peace through world trade? Or are we making a U-turn?

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Trade is an intrinsic part of humanity's DNA. It is as natural an instinct as, say, courtship. Throughout history and in all societies whenever attempts have been made by states to prevent trade, means were found to circumvent the interdictions. For example, when the imperial power in Beijing sought to ban trade during the Ming and again under the Qing dynasties, the rapid result was the emigration of Chinese traders to continue their activities in surrounding countries – which is the origin of the large numbers of 'Overseas Chinese' to be found in Southeast Asia. During the reign of Mao Zedong, trade was banned. As soon as Deng Xiaoping lifted the lid, trade boomed and Chinese traders, from major corporations to the street hawker, rapidly expanded worldwide.

The Arabs, the Persians, the Mongols, the Indians, as well as the Europeans, have all been great traders at one time or another. Indeed the global Indian diaspora is another testimony of what happens when home conditions on trade become constraining – those who can just leave to pursue trade elsewhere. South Asia has the dubious distinction of being the region with the lowest share of intra-regional trade (about 8 per cent). The official figures reflect the restrictive trade policies between the countries of SAARC (South Asian Association for Regional Cooperation), though the 'real' figures would have to include the considerable amount of smuggling that occurs across borders or through third countries, such as Dubai.

While efforts need to be committed to providing the proper framework for the global governance of trade, the obligation of individual countries is to set the rules to ensure that trade is properly conducted, but also to provide the proper incentives and the necessary infrastructure for traders to trade. The fact that today, for example, Africa is far less engaged in the global market than many other regions of the world – notably Asia – does not mean that trade is not in the African DNA. The shortest of visits to any African country will confirm that Africans are actively engaged in trade in whatever manner they can. In light, however, of poor infrastructure and a generally highly constraining domestic regulatory environment, this results in both limited trade and much of it conducted in the 'informal sector'. While recognizing that there have been abuses and that elements of the trade regime are grossly unfair to Africa – cotton stands out as a flagrant example – the proposition, nevertheless, in contrast to what

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is advanced by many in the anti-globalization community, is not that trade is bad for Africa, but that African states have generally been bad at trade.

The dream articulated by the founders of the ICC in 1919 – ‘world peace through world trade’ – degenerated within two decades into a nightmare. The trade wars of the 1930s preceded and constituted a critical cause in the full-scale fighting war that subsequently broke out. The great contrast between the first half of the twentieth century and the second half was the exponential expansion of world trade and the many benefits it has bestowed on the planet.

This has emphatically been the case in East Asia. In the period following World War II until the mid/late 1970s, East Asia was engaged in multiple wars, revolutions, conflicts and tensions. It is an incontrovertible fact that trade has greatly contributed not only to reducing poverty on an unprecedented scale, but also to peace. Trade between Taiwan and the People’s Republic of China, as one key example, is incontestably an important reason why there has not been conflict between the two. Or one thinks of Southeast Asia, where the war in Vietnam has become a distant memory; and the opening up of the country to trade has witnessed the return of the boat people! Indeed Southeast Asia, which was mired in bloodshed and seemed destined to be the hotspot of the Cold War, has been transformed from a battlefield to a marketplace.

But it would be a very grave mistake to believe that global trade can be sustained on autopilot or that it will necessarily maintain a forward momentum. The 2008–2009 global financial crisis posed an immense danger to trade with justified fear of the resurgence of protectionism. At the time of writing, fortunately, this has not happened. But we must not be complacent. We live in a fragile world. We also live in a rapidly changing world. The systemic shifts in global economic power and the emergence of new major global actors, China in particular, and new forces, notably climate change, pose new and actually quite daunting challenges.

There is a need to adapt to the new actors and the new forces. The trade regime built on the embers of World War II was put together by Western architects and, consequently, aimed at serving Western interests. With Japan as an appendage, it was primarily in fact a North Atlantic framework that brilliantly succeeded in enhancing peace and prosperity to the North Atlantic. In the twenty-first century it will be

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necessary to ensure that the ‘global South’ is well accommodated in the trade structure.

This must be the agenda for policy makers and policy thinkers. But it must also be on the agenda of business leaders. In setting out the motto of ‘world peace through world trade’, the founders of the ICC did not, obviously, consider that this was a *fait accompli*. It was the articulation of an aspiration. Global business leaders must seek to ensure that when the ICC comes to celebrate its centenary, in 2019, that robust and dynamically adaptive trade policies and trade activities will have contributed significantly to overcoming the daunting challenges the next decade faces and to ensuring that the dream is significantly closer to reality.

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Editorial note

The articles compiled in this publication are voluntarily eclectic in subject, opinion and geographical focus. They represent the views of a multiple range of experts with contrasting backgrounds originating from all corners of the world. The authors have also been drawn from different generations. They describe a patchwork of forces that drive the multilateral rules-based trading system in the early twenty-first century as well as propose avenues to the understanding of future patterns of international trade. These narratives aim to shed light on the complex nature of global interdependence and to encourage readers to seek further knowledge on issues pertaining to international trade and to its broader implications related to peace and prosperity.

Under the broad heading ‘Peace and Prosperity through Global Trade’, authors were asked to provide an opinionated article on specific topics outlining their vision of the immediate future with an emphasis on poverty reduction, social justice and environmental sustainability. The areas of focus vary greatly from one article to the next. The 2008–2009 global economic crisis in which the articles were drafted and compiled has also had an incidence on analysis and recommendations. The articles have been grouped into five chapters for the sake of clarity but many of the issues are deeply intertwined.

While of diverse opinions, the authors share an active commitment to address the shortcomings of the multilateral trading system and turn it into one of the key global instruments to achieve peace and prosperity. The Evian Group is fond of quoting the fourteenth-century scholar Ibn Khaldun: ‘Through foreign trade, people’s satisfaction, merchants’ profits and countries’ wealth are all increased.’ By foreign trade Khaldun meant not only the exchange of goods, but also the exchange of ideas. We hope to have succeeded in the latter.