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Ladies and gentlemen,

A very good day to you all.

It is a great pleasure for me to be here with you today. Thank you for coming and thank you for your time and interest.

As you may know, somewhat more than a year ago I decided to leave active politics. I now have the honor to preside over the FAES Foundation and to lecture at Georgetown University. Today I would like to share with you a few thoughts on matters that I believe to be of considerable importance at the present time.

I shall begin with the economy.

I live in Europe. Many of you here today also live in Europe. You know as well as I do that the economic situation is anything but promising. And I am not only referring to the economic climate. I am talking about 20 million unemployed, about a growth-rate that barely nudges above 1%. The medium and long-term prospects are not especially positive either.

Europe has become – and I believe it is important to state this clearly – an area that reflects the lowest economic growth in the world, alongside Japan.

Within the developed world, the region of North America continues to perform strongly in an economic sense, leaving Europe trailing in its footsteps. The United States enjoys full employment and a high rate of potential growth. The situation in Europe is quite the opposite.

Within the developing world, Latin America, in spite of the latent threat of populism, presents a growth-rate of around 4%, having enjoyed 6% growth just last year. What is more, this kind of growth is of a balanced type, based on public budgets that are close to being balanced or that, in some cases, even present a surplus, featuring sustainable foreign trade accounts and moderate rates of inflation.

And, of course, there is Asia. There is little we can say about a phenomenon that could be described as accelerated economic expansion based on sustained growth rates of 10%, a phenomenon that is changing the face of the world economy at a dizzying pace.

I am an optimistic by nature and, objectively speaking, the world is experiencing a favourable period of economic growth.

2004 witnessed the strongest rate of economic growth at a world level in the last thirty years. The world economy grew by 5%. And 2005 will also be a highly positive year. The world economy is expected to expand by more than 4%.

In this respect, global indicators reveal that the world is capable of rapidly improving the standard of living of its inhabitants, and that is always good news.

At the same time, contrary to what some may believe, this process of wealth creation has helped to reduce poverty and existing inequalities. The world economy is making great strides in terms of promoting equality.

In spite of this highly favourable and historically exceptional economic climate, Europe is witnessing a slump. And we must ask ourselves why this is. My answer is very clear. We have ourselves, and only ourselves, to blame.

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Five and a half years ago, European leaders approved the Lisbon Agenda. I recall it perfectly, because it was an initiative that I headed alongside Tony Blair.

The Lisbon Agenda diagnosed Europe's ills perfectly, since the symptoms had already emerged. However, it also prescribed a series of appropriate remedies: reform, reform and further reform. It also proposed stability: budgetary stability and institutional stability.

What is the problem in the majority of European countries today? Quite simply, there is a lack of political will to undertake the reforms that are required. Nothing more than that. And these are the consequences: unemployment and a stagnant economy, accompanied by demographic decline.

I am well aware of the fact that economic reforms are not easy to implement. However, the alternative is paralysis, populism and demagoguery. And none of these approaches works.

What is happening in Europe? There is simply a lack of political courage when it comes to taking the decisions that everyone knows have to be taken. And, in many cases, leaders prefer to look around for scapegoats: the "wicked Chinese", who export so cheaply and fail to respect social rights; the "heartless Koreans" who dump their products on us. Hiding our heads in the sand is no solution at all.

The responsible political approach is to take decisions, however difficult they may be, decisions to promote the general good.

In order to illustrate this point, I can draw on my own experience implementing the reforms that took place during my time in office. Privatization is a good example. In 1996, many Spanish companies, some of them of considerable importance to the country's economy, were in the hands of the State. Two weeks after assuming the reins of government I took the decision to undertake a massive programme of privatization, one that would encompass sectors such as energy, telecommunications, banking, insurance, industry and air transport, to mention just a few.

We were obliged to overcome strong resistance, since there were a number of vested interests and movements against privatization on various fronts that were prepared to put up a fight.

Today these companies operate much more efficiently. They are more productive, create more employment, provide better services, are more innovative and are capable of competing successfully on the international markets.

Liberalization and the introduction of competition to markets that had operated as monopolies up until that time represented another challenge that required considerable doses of political will. The energy markets, the telecommunications markets, many professional service markets, the trade sector and the property market, to mention just a few examples, all operated as monopolies at the time.

Owners, managers and even employees at monopoly enterprises or oligopolies, along with certain groups with vested interests in various well-organized professional sectors, all opposed the idea of competition. Once again, our political decisions were applied in the general interest.

At the time it was claimed that these measures would be detrimental to the weakest members of society. However, the fact is that, thanks to these decisions and other subsequent measures, Spanish companies were able to create more than 5 million jobs in just eight years, increasing the size of the country's working population by some 50%.

The problem is that there are some governments that never find an opportune moment to carry out reforms. That is the sad truth. And this is very much the case in Europe.

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Among the economic reforms that must be carried out, one is quite essential: trade liberalization. And I am perfectly aware that it is not easy to implement this kind of reform. Many specific groups and interests exist that oppose any kind of trade liberalization and they exercise their power in order to defend their monopolistic or oligopolistic position.

When I was the Prime Minister of Spain, I was subject to intense pressure from many quarters to halt or delay trade liberalization measures in many key markets, both within the framework of the new competitive environment created by the Single European Market or when opening up Europe's markets to foreign competition.

My policy was always clear: to eliminate trade barriers by establishing a calendar for progressive liberalization, making it clear from the very beginning that the idea of liberalization in itself was not negotiable.

I will give you an example of the current European malaise. We currently find ourselves at a crucial moment in the Hong Kong Round of Trade Negotiations. And what is at stake? Only the success or failure of the Round itself, and probably much more!

And what does Europe, or at least a part of Europe, do? It blankly refuses to remove any subsidies for the export of agricultural products, subsidies that, for example, mean that Africa is flooded with subsidized European milk, preventing Africans from producing their own milk themselves, which they certainly could do at a cheaper price. This is a blatantly irresponsible stance, one that is maintained for fear of losing a handful of votes.

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A responsible politician should also protect the stability of the country's institutions and hold to his commitments. Because an appropriate institutional framework promotes security and confidence and enables members of society and companies to deploy their innovative and dynamic resources.

I will give you another example of what I am talking about within the European context. As you know, in 1997 Europe's leaders reached a agreement that was enshrined in a Stability and Growth Pact. A series of rules was established.

Furthermore, these rules were tailor-made to suit the two largest countries in the European Union, being clearly designed to exclude Portugal, Italy, Greece and Spain from Monetary Union, the group known at that time as PIGS.

In the end, Monetary Union began to operate, with Spain, Italy and Portugal making an extraordinary effort to consolidate their budgets. And then what happened in 2003? The same countries that had laid down the rules began to break them themselves. And then what happened? These same countries simply decided to change the rules so that they would not have to apply them in their own case.

In a matter as delicate as that of Monetary Union, in which credibility plays an important role, changing the rules is an extremely negative development. At the same time, the message that is sent to society in general is that political commitments have little value, since policies are changed whenever convenient.

This produces a considerable degree of distrust on the part of society, which is detrimental to the economy as a whole.

This is the root cause of Europe's faltering economy.

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What does Europe need, then? In my view it needs an urgent injection of privatization, liberalizing reform, market flexibility, competition and budgetary stability.

Some, of course, are still laboring under the misguided approach defined by old Keynesian dogmas, which encourages the use of the public deficit as a tool for promoting growth. Not only has this approach been discredited, but it is entirely wrong. Today, the deficit is an indicator of economic failure, an indication of a depressed economy. It is not the medicine, but a symptom of the illness.

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The measures I have described would go a long way to solving the current European malaise. However, I must tell you that not even these measures would be sufficient to rescue Europe from its current plight. The fact is that, without freedom and security, there can be no prosperity.

The West faces the threat of terrorism, of Islamic terrorism. It is a threat that materialized on 11th September 2001, and then again on 11th March 2004 and again on 7th July 2005.

This threat has also emerged in Turkey, in Indonesia (the Bali attacks), in Morocco (the Casablanca attacks) and in Egypt. Attacks have been aborted in France and in Belgium. None of these countries participated in the Iraq War, by the way. And I might add that terrorist attacks have been foiled in Spain some time after Spanish troops left Iraqi soil, which is significant in itself.

We are talking about a threat that has claimed thousands of lives and had a very clear economic impact. You are more familiar with the air transport sector, the tourist industry and all their related spheres of activity than I am, so I do not think I need to say any more on this point.

The challenge is a major one, because what the terrorists seek to destroy is nothing less than our way of life, our model of society, that of free, open and democratic societies.

And there are two possible responses. Appeasement or a policy of facing terrorism head on.

Appeasement only gives terrorists encouragement, inciting them to continue fighting to achieve their goals. We will only be able to defeat terrorism by facing it head on.

I shall not go into this matter any further here today, but Europe needs to respond to this threat, a threat that some quarters simply do not wish to recognize. Doing nothing will not only fail to solve the problem. It will exacerbate the problem.

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Earlier on I was talking to you about trade. I would like to return to this topic now.

At present we are at a crucial moment in terms of promoting world prosperity. It is crucial because the future will depend on the success or failure of the Doha Development Round.

The creation of the World Trade Organisation was a huge leap forward for us all. This historic achievement took place in 1995, almost forty years after the Havana Charter was signed.

Having unjustly and irresponsibly become the “target” of “anti-globalization” movements - that I would rename “anti-development” or “anti-progress” movements - the World Trade Organisation is the only body capable of progressively dismantling economic and trade barriers at a world scale.

Those who attack the WTO are irresponsible in the extreme, because this body is the only means of defending the interests of the weakest members, of those who have the most to lose in a world ruled by the “law of the jungle”, the “law of the strongest”.

The progress of free trade throughout the world requires a satisfactory conclusion to the new Round of Trade Negotiations. Following the failed attempts in Seattle and Cancun, Hong Kong is decisive.

I would like to highlight the fact that now is the moment for responsibility, a responsibility that is incumbent on us all.

Those groups in developed countries that continue to resist dismantling harmful trade barriers to the developing countries are doing little good for development in general. I mentioned a European example of this kind of attitude earlier on. But the United States and Japan must also make an effort.

And those developing countries that opt for populist and demagogic stances, adding their voice to that of the most radical proponents of anti-globalization, are doing no favors to the cause of development either.

They are simply hindering a round of talks that, if brought to a successful conclusion, would bring benefits to all, but especially to the developing countries.

As the new Director General of the World Trade Organisation has pointed out, it will be necessary to work extraordinarily hard over the few weeks that remain and with a strong sense of responsibility in order to ensure the success of the Hong Kong conference. There is a considerable amount at stake, perhaps even the survival of the WTO itself.

That is why we need responsible leaders.

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Promoting free trade also requires our leaders to be pragmatic.

I have already voiced my conviction that multilateral talks are essential. However, in my opinion, this does not mean that we should rule out other ways of promoting the cause of free trade. I am referring to regional integration processes and bilateral trade agreements.

The progress of regional integration is indisputable. Unlike “pure multilateralists”, I believe that regional integration represents a positive step forward. The idea that barriers against third countries may remain is somewhat undesirable, certainly, but let us look on the positive side: these processes help to dismantle protectionist barriers among the members that make up the region, and this facilitates subsequent progress when it comes to implementing multilateral liberalization.

The same could be said for bilateral agreements. Provided that they are “constructive” agreements, featuring measures to dismantle barriers other than those introduced by the WTO, and not measures that merely substitute the latter, they can play an effective role in breaking down barriers to trade and investment, ultimately resulting in welfare gains.

Mexico’s Free Trade Area with the European Union, which followed the introduction of NAFTA, as well as the recent CAFTA Agreement and the Euro-Mediterranean Agreements, are all good examples of the processes I am referring to.

In this respect, the success of the Doha Development Round does not conflict with the progress of the various regional integration processes and bilateral trade agreements that exist today. I would like to highlight two of them.

First of all, I would like to single out the European Union-Mercosur Agreement. In my opinion, attempts should be made to overcome the standstill that has been witnessed in recent years. I believe that the decision to re-launch the negotiations is highly positive. I wish the participants every success.

Second, I shall mention the Atlantic Agreement between the European Union and the United States. This agreement, which is entirely open to the rest of the world and focuses on dismantling the regulatory barriers that hinder the full integration of the European and US economies, should help to strengthen the Atlantic link, whose importance to us all I do not believe I need to point out to you here.

These processes, combined with many others, will enable us to gain ground in eliminating protectionism. They represent true progress towards a freer and more prosperous world.

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Dear friends, I shall not detain you any longer.

It has been a pleasure to share these thoughts with you all today, and it simply remains for me to express my gratitude for your kind welcome and your patience and interest. Thank you very much.

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