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OVERVIEW OF THE WORLD SITUATION

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Please allow me to begin by thanking you, Mr Co-Chairmen, for the great honor of presenting this year's "Global Overview". I am humbled to address such a distinguished gathering of personalities who have served their countries at the highest levels, with great distinction and, as I start, a remark of Winston Churchill comes to my mind. When asked to say what he thought of Clement Attlee, the bland leader of the Labour Party, who had dealt him an election defeat following World War II, Churchill replied: "Attlee is a modest man with a good deal to be modest about." I would like to say the same about myself. I hope this avowal will earn me your indulgence!

An indulgence all the more necessary given the difficult task you have assigned me. I would even say "mission impossible". I have, of course, carefully read the previous "global overviews" of Chancellor Schmidt, and Prime Ministers Malcolm Fraser and Ingvar Carlsson. I was impressed that each of them, in his own fashion, got through the arduous exercise with marvellous ease. The challenge is all the more daunting.

Ladies and gentlemen, the challenge lies in the complexity of the international situation, which is largely the result of the interaction of two fundamental series of forces: those that affect the planet as a whole and can only be dealt with by common international actions; and those that concern only certain parts of the world, but whose evolution and consequences impact the entire international community.

I

I will be dealing first with problems that have to do with world governance. In this respect the evolution of the past 12 months is not particularly encouraging. Neither the world economic situation, nor the struggle against nuclear proliferation and terrorism, nor the necessary reform of the United Nations has made notable progress since your last meeting.

1° The world economy presents a paradoxical picture. Growth in 2004 was the fastest in almost 30 years: 5,1 %. The IMF forecasts 4,3 % in 2005, still above the trend of the last ten years, and a further increase in 2006. Yet there is a pervasive sense of uncertainty and pessimism.

In a recent Washington Post article, Paul Volker, the former Chairman of the FED, declared that "circumstances seem to be as dangerous and intractable as any I can remember, and I can remember quite a lot". It is difficult to disagree with Paul Volker. Four negative factors are hanging over the world economy.

First : **the price of oil**. It has risen in real terms by 70 % since the summer of 2003. A jump which, to this day, has had no adverse effect on inflation and little negative impact on growth. But this could change if the price of oil stays at its current level for long or rises yet further. An IMF specialist has recently predicted a "permanent oil choc".

Second: **The worldwide rise in house prices** which is quickly turning into one of the biggest bubbles in history. This rapid increase is unsustainable, but the impact on the global economy of a world wide fall of real estate prices could be highly damaging, given the fact that there has been a lot of borrowing against capital gains in homes to finance other spending. Real estate has already started to slide in Great Britain, Australia and the Netherlands. However, prices could flatten instead of collapsing, which would make a soft landing possible.

Third: **the imbalances of the global economy**. They are caused, to a large extent, by America's huge and constantly growing external deficit. A deficit that is presently running at

6 % of GDP and could be reaching 7 % at the end of 2005. Such a deficit cannot last forever. Adjustment must happen in one way or another. In the mean time, the Dollar seems set to weaken further. A doomsday scenario of a dollar crash is considered unlikely in the foreseeable future by most observers. On one hand, China seems at last to consider loosening the ties that bind the Yuan to the Dollar, which would help the dollar. On the other hand, the recent slide of the Euro also eases the pressure on the dollar. But neither a rise of the Yuan, nor a decline of the Euro will solve America's deficit problem.

Four: **Europe's economy** seems to be stumbling and Japan's economy, which had taken a promising start, seems to be again stalling.

The good news is that the economic surge in 2004 and 2005 has been led, to a large extent, by **the developing world**. Even if one takes China, India and Russia out of the equation, the developing world has grown around 5 %, significantly faster than in the 1980's and 1990's. In East and South Asia growth, according to the World Bank, is producing a "spectacular decline" in poverty. On present trend, there will be only 19 million people living on less than 1 dollar a day in 2015, in this region, overshooting the Millennium goal.

This happy development unfortunately does not apply to sub-Saharan Africa, which is the one region where the number of people living in extreme poverty is increasing. That number has doubled since 1981 and, on present trend, is likely to rise to over 400 million people in 2015. Bad governance, recurrent conflicts and epidemics are some of the major threats to recovery. The HIV epidemic, for instance, is infecting and estimated 25 million people in sub-Saharan Africa, 60 % of the world's total.

The need for a new deal for Africa is at last gaining momentum. There is a growing consensus on the need for a doubling of aid to the continent. A goal America, however, does not yet seem ready to accept for itself, but which will be high on the agenda of the next meeting of the group of leading industrialized countries, and even more so on the agenda of the UN September summit that will assess the progress achieved on the UN Millennium Development goal.

2° The nuclear threat has evolved in dangerous ways to the point of raising doubts about the sustainability of the Non Proliferation Treaty, the NPT. The world faces an immediate and double nuclear challenge from North Korea and Iran.

North Korea has withdrawn from the NPT and announced, last February, that it has built nuclear weapons and that it is increasing its arsenal. There is a broad consensus among experts that North Korea has at least a few crude devices and there are reports that it is preparing its first nuclear test.

Iran is less advanced. It is in the process of developing a capacity to produce fissile material that could be used to manufacture nuclear weapons. Iran insists that its program is peaceful. But it has a twenty year record of lies and cover-ups. Britain, France and Germany have been trying to talk Iran out of producing enriched uranium in exchange for economic and political inducements. But the talks have not made much progress. If the next Iranian president, probably Mr Rasfadjani doesn't show a greater willingness to reach an agreement, the Europeans intend to join the United States, in deferring Iran to the Security Council.

The NPT, as Iran points out, does not prohibit countries from producing enriched uranium or plutonium. It allows a country to come to the brink of a weapons capacity and then renounce the treaty and sprint for the bomb. This is why the NPT Treaty must be reinforced. But non nuclear countries are not inclined to strengthen the existing regime as

long as the five original nuclear countries do not fulfil their own disarmament commitments. It is no great surprise that the review conference of the NPT, held in New York in May, failed to achieve any kind of agreement.

The United States is at a loss to define an effective strategy. Referring Iran and North Korea to the Security Council is no panacea and a military strike against dispersed, buried and concealed facilities might not succeed and would provoke damaging retaliations from both countries. In the absence of a promising military option, the only viable approach is vigorous diplomacy, giving both regimes not only significant economic concessions but also security guarantees, which President Bush is reluctant to give to regimes he wants to see changed. Non proliferation is indeed at a dangerous impasse.

3° There is a general agreement on both sides of the Atlantic on the severity and resilience of the threat from **Islamic terrorism**, in spite of the fact that there haven't been any major attacks in the US since 9-11.

Intelligence services around the world consider that the Jihadist movements continue to gain in strength. The US intervention in Iraq, portrayed as a war on Islam, spurred a steady stream of new Jihadists. The movement is spreading not only among the economically deprived but among the privileged and in some wealthy regions such as the Emirates of the Persian Gulf. And it spreads even more easily among the thousands of young educated adults for whom the stagnating Middle East economies are unable to create jobs.

In addition to the various cells all over the Middle East, there is considerable evidence of an ongoing radicalisation of Muslim minorities in south and south East Asia. A small but troublesome proportion of Madrassas in Pakistan and south East Asia are breeding grounds for Islamic fundamentalism, which is also developing in Europe, in the Caucasus and in central Asia.

Thus far there is no evidence that Al Qaeda has acquired a nuclear or a significant biological weapons capability. However, recovered documents suggest that Al Qaeda is actively pursuing a nuclear capability.

The good news is that intelligence and law enforcement cooperation between the US, European and Asian countries is in general excellent and has not been adversely affected by the transatlantic rift created by the American intervention in Iraq.

4° Fighting terrorism, extreme poverty, or implementing the rule of law can only be effectively pursued at a global level. This requires the existence of an international system that nations trust and the decisions of which they respect and are ready to implement.

This is why the crisis that has struck the **United Nations** is so disquieting. The division over the war in Iraq, and the charges of mismanagement in the "oil for food" scandal have seriously weakened the UN.

There is general agreement that change is overdue. No one understands this better than Kofi Annan himself. He proposed last March a set of sweeping reforms he wants discussed at a special UN summit in September. He recommends the expansion of the Security Council, the restructuring of the discredited Human Rights Commission as well as a universally accepted definition of terrorism.

But the enlargement of the Security Council, the cornerstone of his proposals, is already running up against oppositions which could prove difficult to overcome. It seems, for instance,

that the anti-Japanese campaign in China is designed to prevent Japan from becoming a permanent member of the Security Council. The greatest unknown, however, concerns the attitude of the US and the exact meaning of the nomination as American Ambassador to the UN of John Bolton, one of the most outspoken critics of the organization.

II

Ladies and Gentlemen, the future will not depend only on the way in which the international community faces its global challenges. It depends also on a certain number of important regional issues. I have chosen four that appear to be essential:

- First: the evolution of American policy, whose priorities have such a large impact on the world situation.
- Second: the events in the Middle East, which resonate in the entire Moslem world but also, because of the importance of oil, on the world economy.
- Third: the spectacular rise of China, which is in the process of upsetting the economic and political balances in the world.
- Fourth: the failure of the European constitution which has brought to a halt, at least temporarily, the progress of the continent toward increased union.

Other regions surely deserve our attention. But choices had to be made. I fully expect you will challenge mine.

1° Most of the world hoped that John Kerry would be America's next president. But the American people chose Bush, who was not only easily re-elected but captured a majority in both houses of Congress. The rest of the world had to accept that he will be around for the next four years.

The question then became: will Bush's second term follow the pattern of the first, or will he take a different, more moderate route?

Six months have gone by and the answer, I believe, is both no and yes.

Neither Bush nor his administration are about to renounce resorting to preventive military action, unilaterally if necessary, against perceived threats to America's security. John Kerry, Bush's presidential challenger, made it clear that he would not give up that option either. Let's face it: the terrorist attacks of September 11 will continue for many years to dominate America's agenda.

There are quite a few other discouraging signs. President Bush is not about to ratify the Kyoto Protocol or to join the International Criminal Court. America continues to spend as much on defence as the rest of the world combined. The reshuffling of the key actors of the administration doesn't convey much hope either : Collin Powell has left, Donald Rumsfeld is solidly entrenched. Wolfowitz and John Bolton, arch conservatives, have received crucial international assignments. And in the country as a whole the political influence of the conservative Christians has increased.

Does this mean that we are out for another four years of the same? Believing this would, I think, miss one important fact: America's "hyper-power" has, during the last four years, encountered limits which have led the US to a certain number of significant course corrections.

- Military limits: the US military is clearly overstretched and is experiencing a worrying fall off in recruitment for the army and the Marine corps.
- Financial limits: the dollar has slid and depends ever more on the willingness of the Chinese Central Bank to purchase billions of US treasury securities every year; which means that America is clearly living beyond its means.
- Political limits: America's worldwide unpopularity is seriously undermining its diplomatic clout. Its influence in Asia, in particular, has been waning with China leading the charge.

In other words America, during Bush's first term, seems to have hit the limits of unilateralism and has started to adjust to the situation.

- Bush's visit to Europe reflected his desire to revive badly battered old alliances.
- In Iran, the US has decided to support, if not wholeheartedly, the Europeans in their negotiations over Iran's nuclear program.
- In the wake of Arafat's death, the US has decided to throw itself back into the Israeli-Palestinian peace process.
- Concerning Lebanon the Bush administration has sought close cooperation with France.
- Faced with the Korean and Iranian nuclear threat, the US is preparing to refer both countries to the Security Council for sanctions.

In other words more traditional American notions of burden sharing and multilateral leadership have timidly begun to reassert themselves.

Will the Bush administration sustain this new course, or will its over ambitious, self assigned mission of "ending tyranny in the world", rekindle its appetite for "regime change" ? Much, I believe will depend on the way the situation unfolds in the Middle East.

This leads me to a rapid review of the situation in that highly important but explosive part of the world.

2° Looking at **the Middle East** one feels like rubbing ones eyes in disbelief. **A year ago**, the situation seemed utterly hopeless. In Iraq, America was facing intractable problems and Sharon's decision to evacuate Gaza seemed no more than a manoeuvre to keep the West Bank and continue building a security wall which disregards Israel's pre-1967 internationally recognized borders.

Today a **political spring** of some sorts has come to the Middle East in the wake of three elections and one unexpected occurrence : the death of Yasser Arafat.

The sight of hundreds of thousands of eager citizens standing in line, at the risk of their lives, to vote in Afghanistan and Iraq has sent a powerful signal through the Middle East. Mubarak has half-opened the next presidential election to more than one candidate. Limited municipal elections have been held in Saudi-Arabia and street demonstrations have toppled the Lebanese government and pushed Syrian troops out of the country.

In Iraq, Shiites, Kurds and representatives of the Sunni community have succeeded in setting up a coalition government. Iraqi security forces are being trained, and seem to be increasingly participating in the fight against the insurgency.

In Palestine there is now a freely elected, moderate leader, Mahmmd Abbas. He succeeded in convincing Hamas, the extremist militia, and the other radical movements to accept and respect a temporary ceasefire and he has started to reform the Palestinian security and administrative apparatus.

Whether the political spring will last, whether democracy will ultimately bring peace and stability to the Middle East remains, however, highly uncertain.

In Iraq, the United States had hoped that a democratically based government would dampen the insurgency. Instead killings have surged, with the clear objective of undermining the authority of the new government and causing sectarian violence. In one single month, April, 135 car bombs exploded, 50 % of which were suicide attacks. Foreign fighters entering Iraq seem to replenish the insurgency as quickly as insurgents are killed or captured.

Insecurity makes the challenge of drafting a permanent constitution – the government's central task – even more difficult than it would be in any case. A task which requires settling three daunting issues :

- the role of Islam and Shariah law in tomorrow's Iraq ;
- the division of power and oil revenue between the central government and Iraq's three communities ;
- the geographical boundaries to be granted to the Kurds.

Underlying these three issues is a more fundamental one : how sincerely are Iraq's communities committed to preserving the country's unity ? Will the long oppressed Shiites refrain from seeking to impose their own intolerant rule ? Will the Sunnis, who have boycotted the January elections, finally accept to participate in Iraq's political life ? Will the Kurds durably put the future of Iraq above their longing for independence ? If not the worst could happen and civil war could break out, causing havoc in the entire region.

Equally mind-boggling challenges are likely to threaten the Israeli-Palestinian peace process, after the evacuation of Gaza. The issues, which caused the 1995 negotiations in Camp David and Taba to fail, are still there : the fate of Jerusalem, the drawing of the future Palestinian state's borders, the evacuation of the Jewish settlements established on the Palestinians side of the boarders, as well as the issue of the return of the Palestinian refugees to Israel. Success will depend on the willingness of President Bush to pressure Israel and on the future approach of the Palestinian leadership, now that Hamas is emerging as a major political factor. Other issues, such as the rise of the Shiites in a region traditionally dominated by the Sunnis, could also have a destabilising impact.

However, it does seem that a window of opportunity has opened in the Middle East. Such opportunities don't present themselves often in that part of the world. Keeping the window open is a priority but will require tough choices on the part of Israel of the Arabs as well as of the West. The pay off could put us on the road to a real peace.

3° The emergence of China as a major world economic power may turn out to be one of the most far-reaching development of our century, an event that creates great opportunities but is regarded with apprehension, especially in the US and Japan.

I shall limit myself to three obvious questions: how long can China's rapid growth continue? How is China's economic expansion going to impact the rest of the world? Is China's rise likely to be peaceful?

Here are three quick, tentative answers.

There is in fact nothing extraordinary about the rate of China's growth. China's gross domestic product per head rose by 370 % between 1978 and 2004, whereas Japan's GDP per head had increased by 460 % between 1950 and 1973 and South Korea's GDP by 680 % between 1962 and 1990. Which means that the era of China's rapid growth is probably destined, in the absence of internal upheavals, to continue for many years, if not several decades, at a high single digit rate.

What makes the Chinese expansion so unique and potentially destabilizing is not so much its rate as its exceptional scale. The chaos created in the textile industries of the world by the end of quotas gives a foretaste of what is likely to happen to many other manufacturing sectors.

The greatest implication for the world is likely, however, to come not so much from China's industrial competition, however severe it will be, as from its hunger for oil and raw materials. China imports five billion barrels of crude. It is already the world's second largest importer of oil after America and its demand for oil is bound to increase sharply for many years to come.

China's momentous rise is also starting to generate **significant political repercussions**. Simply stated, China has, in many ways, started to behave like a great world power.

Its insatiable economy drives its diplomats far a field in search of new relationships to secure oil and raw materials. They are attracted towards countries where the US has imposed sanctions like Sudan or Iran, as well as in areas the US considers vital for its security, such as the Emirates of the Persian Gulf or Saudi Arabia. Beijing is active in Latin America and in central Asia where it rivals America and Russia.

China's need for secure oil supplies have also caused it to claim ownership of various islands in the South and East China Seas, the economic zones of which are thought to include oil and mineral deposits.

China's initiatives in and beyond Asia have resulted in increasing problems with the US and, even more so, with Japan. Relations between the two countries have deteriorated in spite of the fact that Japan has become China's biggest trading partner, over-taking America. Tensions have arisen on various scores. China claims ownership of the Senkaku Islands which Japan considers hers. It accuses Japan of meddling in its internal affairs because of the recent US – Japanese statement concerning Taiwan. It protests Prime Minister Kaizumi's yearly visit to the Yasukuni shrine where all Japanese war dead are honoured, including war criminals. It demands renewed apologies from Japan for its invasion, in spite of the fact that Japanese Prime Ministers and the Emperor have already made such apologies in the past. Lately it has initiated, or at least tolerated, violent anti Japanese street demonstrations.

What is at issue behind those various disputes is the future power balance in Asia, where China is actively developing its influence. Its military build up and modernisation is adding to America's and Japan's concerns. Beijing has recently announced a 12,6 % rise in its official defence budget, which is believed to understate spending by 30 % to 50 %. Continuing yearly increases are to be expected.

Could existing economic and political clashes escalate into **military collision**? The likelihood of anything of the sort happening in the foreseeable future is, I believe, very slim. The Chinese leaders are nationalists but also pragmatists. They know they could not prevail

militarily over the US if they tried to overrun Taiwan and their primary objective is likely to remain for many years and probably decades the sustainment of their country's economic rise, which requires stability and peace.

What the distant future holds in stock, once China becomes a full fledged diversified world power, is impossible to predict. Much will depend on our success in engaging China and defusing emerging confrontations in the multipolar world of tomorrow before they degenerate into open conflicts.

4° The rejection by France last May 29 of the **European constitutional treaty** is a major setback to the unification process that the countries of Europe have been engaged in for the last half century.

Why did the French, who were the initiators of European construction, together with the Federal Republic of Germany, reject the text that was submitted to their vote?

Did the proposed constitution contain serious flaws or shortcomings? The answer is no, it did not.

The Treaty was written by a convention presided by Valéry Giscard d'Estaing, former President of the Republic. It is a compromise text that reconciles the points of view, often in opposition, of 25 countries at widely different stages of development and with different historical experiences. But it all also contains important innovations. It extends the rule of majority voting to a greatly increased number of areas. It transforms the European economic and monetary union into a political union that would have at its head a president with a renewable term of two and a half years. It creates a European Minister of Foreign Affairs assisted by a diplomatic service, and it extends the powers of the European Parliament. Furthermore, it authorizes the creation, by a limited number of countries acting together, of a permanent European military force, allowing Europe to participate more effectively in UN peacekeeping missions.

So, nothing in the text of the constitution itself justifies a negative vote. Nearly all mainstream parties of the left and the right, In France as well as in Holland, called for a "yes" vote - with the exception of the small Communist Party. The extreme left and extreme right, with no or very small parliamentary representation, were the only ones to call for a "no" vote.

A vote that essentially expresses a reaction of fear: fear of the influx of migrant workers in a borderless Europe, fear of increased competition from the ten recently admitted members of Eastern Europe where salaries, taxation and social welfare are largely below their levels in Western Europe. These differences were perceived as a threat to employment. A threat all the more ominous in view of an intractable rate of unemployment in France and Germany of around 10% that has persisted for many years. The threat is reinforced by the outsourcing of jobs and businesses to Eastern Europe and Asia. This climate of pessimism would have led voters in France to respond "no" to almost any question put to them.

The rejection of the Constitution has **consequences in several areas**. It weakens the French president Jacques Chirac, who made the decision to submit the Constitution to a referendum, rather than parliamentary approval.

It has dealt a blow to the European constitution, from which it will not recover, especially after the second blow delivered by the Dutch "no" a few days later and the decision of the Blair Government to cancel the British referendum.

The crisis that is now crisscrossing Europe will not, however, bring an end to European construction - far from it. The **previous treaties remain in force**, including the Treaty of Maastricht that created the euro and the European Central Bank. I expect that the European Union will incorporate some of the reforms proposed in the constitution : such as increased majority voting, a stable presidency, and an increase in the powers of the Parliament. Without these the Union of 25 members would be stripped of political will.

It is too early to say whether the Franco-German couple will be durably weakened and if, as a result, the influence of Great Britain in the Union will rise. What we probably will see is Europe taking, for a while, a lower profile on the international stage.

III

As a conclusion, I will not try to judge if the world is doing better or worse than a year ago. That would be impossible. How can we know how things will turn out in Iraq ? What could we say about the current promising state of Israeli-Palestinian relations when so many equally promising situations in the past have been frustrated?

I will limit myself to two final observations.

It appears that democracy is making progress in the world. Its march into the future may stumble. Authoritarianism remains deeply entrenched in large parts of the world. It is even threatening a comeback in Russia. On the other hand, opinion polls reveal that democratic values are everywhere gaining ground in the aspirations of people, providing serious hope that democracy will continue to spread.

I am also struck that the advent of a multi-polar world is happening faster than many observers thought. Of course the United States remains, and will remain for a long time, the dominant military power. But in today's world the military instrument is only one lever among many others and not always the most powerful. The United States' painful experience in Iraq is not the only reminder of this. China's and India's rise will soon change the existing political and economic balance in the world.

This leads to disturbing questions:

Will the multi-polar world of tomorrow, over-populated, threatened by a scarcity of resources, especially energy resources, and by ecological imbalances, be able to avoid violent confrontations? Will we indeed witness the clash of civilizations predicted by Samuel Huntington, the American professor? Or will nations realize that their survival depends on organizing an international community founded on rules of law that apply to all, great and small? In this respect it is essential that the reform of the United Nations proposed by Kofi Annan, imperfect as it may be, see the light of day.

It is essential as well that Europe surmount its current crisis and renew its march toward greater union, so that it can make its voice heard in the concert of great powers.

Essential, finally, that the distinguished assembly present here today continue to place its vast experience and wisdom at the service of peace in the world.