



DEBATE

John LIPSKY, Senior Fellow, Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS); former First Deputy Managing Director, IMF

Just to clarify, especially what Jonathan was saying on TTIP. The idea exactly is to harmonise standards between the US and Europe with the notion that it would be extremely powerful in terms of promoting a global harmonisation of the standards that are included. I know there is a big discussion of the scope of what will be covered in TTIP, for example would that include the Financial Sector or not, etc. I was left wondering, what is your assessment of real progress in the next couple of years, not only on the difficulties, but on the likelihood of real progress being made and the likelihood that not just bureaucrats but the corporations and others that you suggested have to get behind these negotiations to make them succeed.

Richard COOPER, Professor of International Economics at Harvard University

I would really like to comment on a remark by our Kemal Dervis, Kemal, rather than the speakers. He talked about the importance of reducing uncertainty for businesses. He made the absolutely valid point that international investment has joined trade as one of the main economic integrators of the world economy these days and it is hard to separate those two. Then he talked about the uncertainties facing investment. The simple fact is that in many ways we live in a world of uncertainty. There is no way of removing the uncertainties for business. There are political uncertainties, but of course the major uncertainty for business is business itself. Innovation by competitors which you are behind on if you are in a particular business, so what we are talking about here is uncertainty created by government regulation, and to isolate that particular source of uncertainty is a world of uncertainty is suspect. It leaves the suspicion that business wants to use this device as a way to put on pressure for less regulation, and I am talking not only about TPP but also TTIP although there are important differences between those two. I think that is what many people are objecting to and I think we ought to face it straightforwardly. There are regulations, and Minister Bart mentioned auto safety issues where for historical reasons everyone is concerned with auto safety but for historical reasons they have been different in different countries and particularly transatlantically. There is no conceptual reason not to harmonise those. There are all kinds of practical reasons, that it will take time and so forth, but no conceptual reason not to harmonise those. However that is fundamentally different from saying we should not have new health and safety regulations, for example as science advances the businesses who are selling existing products may not like them but it seems to me we should not even hint at creating a regime in which such new regulations are not possible or are rejected.

I think that is the objection to the arbitration clause in ISDN and we have a few cases unhappily where businesses have gone around national regulations. One was in Canada and one in Australia. We have a few cases, which each have their own technical details, where businesses have essentially overruled local decisions by invoking the ISDN clause and asking for arbitration and compensation. I think that is a potentially serious problem that trade specialists and I am constitutionally a free trader, need to recognise in any democratic society.

Kemal DERVIS, Vice President and Director of Global Economy and Development, Brookings Institution, former Minister of Economic Affairs of Turkey

Thank you very much. These were really excellent comments that illuminated even more what the speakers have said.

Sean CLEARY, Executive Vice-Chairman of the FutureWorld Foundation and Chairman of Strategic Concepts (Pty) Ltd

I want to in once sense misuse the panel because it relates to this larger issue of global governance which we have referred to four or five times in the context of a putative objective of increasing the range, the spread and the depth of globalisation. I think there may be an underlying challenge in this whole regard that I think it is worthwhile getting one's head around.



The first thing is that we have a curious situation which we are all aware of where democratic accountability to the extent that it exists, exists at national levels, but the vast majority of challenges that we talk about in these particular contexts require collective action at trans-national level. We cannot solve them at domestic levels and hence globalisation becomes a convenient catchword for this larger space and we have developed a whole series of instruments to enable us to address those issues on a larger scale.

The second thing is that the moment that we liberalised capital flows, perhaps unintentionally we liberalised the location of manufacturing employments and subsequently services delivery. Because the moment you can invest anywhere then self-evidently you are going to invest in the locations where you can earn the highest return on capital and under those circumstances jobs move in a whole variety of different areas as a consequence of the fact that capital moves and that has social and political costs once again in national environments and as a consequence you get a whole series of protectionist responses based on perfectly rational circumstances.

The third issue around all of this, and perhaps the simplest way of dealing with it is to use the cliché of the global village. If one thinks of how a village functions, broadly speaking the range of the society and the range of the economy are commensurate with one another, so all the polity has to do is balance the workings of the economy and the village in such a way that everyone in the society is happy. The truth is, however, that globally when you extrapolate that metaphor it fails. It fails because we have created a highly-integrated global economy pre-eminently as a consequence of technological capability, integrated financial systems and long supply chains, but of course the society that constitutes the global population is hugely fractured. They have different interests, different values, different mind-sets and different perspectives. Our polity, the instruments that we employ for purposes of global governance, is completely inadequate to the task of squaring the circle between the workings of a global economy and a fractured society, so how does one think to advance the prospects of economic globalisation in circumstances where these levels of asymmetry are already widespread and manifest on multiple levels.

Kemal DERVIS, Vice President and Director of Global Economy and Development, Brookings Institution, former Minister of Economic Affairs of Turkey

Thank you very much. One last very quick question, we are running out of time.

Karl KAISER, Director emeritus of the German Council on Foreign Relations, Harvard University

Ambassador Fried said the TTIP is something totally new and very different, and precisely because of that it will have resistance such as we have never encountered before, because co-ordination or harmonisation of regulation goes straight into the heart of politics, culture and when you look at the reaction in Europe, the opponents have been very successful in forging very strange but very effective coalitions. For example, there was a big rally in Berlin the other day of almost 200 000 people in which a group managed to get all kinds of people that had nothing to do with trade to oppose and to get together anti-establishment and all kinds of strange people who joined. In other words, we are in a different area. The trade negotiators have to become more political. The politicians have to leave the area of just arranging technical questions and they have to face the very central questions of politics. One, I feel they are not doing very well at the moment, and two, we need a lot of time and we should not be too impatient. Because it is a new arrangement it needs much more time to deal with the political questions as we have never seen them before.

Kemal DERVIS, Vice President and Director of Global Economy and Development, Brookings Institution, former Minister of Economic Affairs of Turkey

Thank you very much, I think I will go in reverse order and I suggest each of you take two or three minutes.

What we face are the global governance question, I am partly the culprit in a sense of having maybe broadened the topic too much. If there were one or two or three things that you think could be done, that are feasible in the whole area of trade as well as regulation, what would they be? What are the next one or two useful steps? I will start with Jonathan in reverse order.



Jonathan T. FRIED, Ambassador and Permanent Representative of Canada to the WTO; former Associate Deputy Minister for Foreign Affairs and International Trade ; former Senior Foreign Policy Advisor to the Prime Minister, Canada

I am not going to quite frame it in the way you have put the questions, because I am very proud to say that in Canada 20 years after NAFTA, and now joining the TPP, every public opinion poll has about 75% public support and endorsement for free trade. Why? Because the government and business and engaged citizenry, including the academic and public policy community, have patiently and consistently educated the public that your well-being actually depends on participating in the global economy. We are a country of only 35 million people and we are still in the top 10, top 15 traders in the world. 40% of our GDP, and that is not being a member of the EU, flows from imports and exports to our economy. Yes, engagement, education about the fact that virtually everyone is connected. If I am just sewing together some fabric that I ship down the road, and the fellow down the road makes it into a band, who then ships it to the next town and it becomes a seatbelt, and it goes from there to the larger centre and enters into a car, I am 10 steps away from being an exporter but I am actually an exporter. How then do you get across that everyone is connected in this supply chain world becomes key?

Equally so on standards. There is nobody, including business, who is seeking to lower standards anywhere. What is being pursued is predictability: basic concepts of transparency and a rational basis for regulation. That is what we did at the borders for trade facilitation and that is what these mutual recognition agreements are meant to do respecting beyond the border regulation. You want to know that the little UE sticker on a toaster made in Europe is just as safe to plug into your socket as a UL sticker in the United States. That does not raise fundamental sovereign social concerns. If we walk people through it, to reach agreement, it is going to take some time in part because the toaster inspectors are going to have to spend six months going through every electrical standard to say if they are a match, and if not can we change them and so on, and it is going to have to be a bottom up approach. It is going to be product by product, and sector by sector, because the auto people will be at different tables than chemical people and so on. It will be painstaking but that is a benefit in disguise because we get to educate ourselves and our communities. That is a reassurance that your social choices are not at stake. As I tried to say earlier, what we are trying to do on behalf of society is to say you make your choice, then turn to the experts and science to say how do you best enforce, it, and if you do it, do it in a non-discriminatory way. It is not much more complicated than that.

On the governance issue, more generally as I tried to say and maybe too quickly at the start, what this is all about is actually set out very recently by the sustainable development goals. What we are talking about is that the global community is committed to ensuring that everybody has an economy that grows in a manner that is sustainable economically, sustainable socially and sustainable environmentally by 2030. If you dig down, SDG number 17 says trade is a means to an end, not an end in itself, and trade follows investment as you say, more than the other way around these days. We have been maybe too successful on the capital side; trade is affected by that. , We are getting investment diversion and investment relocation because the investor will say, oh, you are part of this free trade area that is a better place to invest, so we are distorting the decisions. We need to connect in effect those who are doing the trade rules with those who are doing the investment rules with, let me finish on this, what I might call the enabling sectors.

Any society that wants to move out of agriculture further along supply chain, will need well-functioning sectors that are the backbone for everything else that goes on in the economy. You need to generate energy, renewable or traditional, so you have to invest; this is your infrastructure. You need telecommunications and internet, wired or wireless, so there is a massive soft connectivity and infrastructure that is needed. You need the financial sector to actually intermediate. And you need transport. Now that may belong in aviation over in the Chicago Convention, or the International Maritime Organisation for shipping and so on, but you need to look at these enabling sectors in a comprehensive way. Have I given this economy the tools, not just for multi-nationals to come in, but for my indigenous business to grow into connecting either to my neighbourhood or more globally?

We do not connect, we do not sit down between the WTO, the Bretton Woods and the panopoly of UN agencies and regional organisations to say let us do a comprehensive diagnostic of what it takes to put this country on a sustainable footing, or to ask whether we can coordinate and sequence in a manner that reassures the population and in a manner that gives the government the capacity to regulate and to listen to social choices domestically in doing so. What is



needed is not the UN of everything, but at least almost a central table for any recipient country or region. We have made sputtering attempts at that in the past and that needs to be renewed. It used to happen when Kemal was at the World Bank. However, then Turkey stole him and we have taken a step backwards since.

BARK Taeho, Professor at Seoul National University, former Minister for Trade, Republic of Korea

I want to be very brief and make two points. One is why people do not expect regulatory harmonisation or convergence negotiations would be difficult. Even if you invite regulators rather than trade negotiators, for what they will talk to each other? They probably talk for their own regulatory system, not for beneficiaries like consumers or whatever, so the consumers, or business people even, do not trust this kind of government regulation anyway. Even though you switch the players from a straight negotiator to regulators, so we do not give them any confidence in the negotiations.

Second one is why is there so much resistance against the TTIP? I teach international trade for many years. We know that the benefits of trade liberalisation or regulatory harmonisation are quite big. However, if you divide the benefits by whole population, each person does not get any real feeling about the gain. Then it is easy to listen to other people who say this does not give you any help or this is not good for this group, that kind of thing, you cannot mobilise even beneficiaries into one voice. It is really difficult, and Ambassador Fried said that you have to educate them, give them more information, through social network services on these issues, that is the only thing we can do. But the gains per citizen and the concerns per negatively affected person are quite asymmetric, so that is why we cannot get a convincing regulation negotiations. That is how I understand it.

Kemal DERVIS, Vice President and Director of Global Economy and Development, Brookings Institution, former Minister of Economic Affairs of Turkey

Thank you very much. We have had two panellists, Minister Taeho and Ambassador Fried, who have really worked on the broad picture but also in the nuts and bolts of getting things done all their lives. I think it is good to remember that of course we need the broad picture, we need the slogans, we need the big phrases, but unless we have real specialists and people who know really what they are talking about work together globally on the various dimensions of which trade and the wider field of regulation now is one but also other fields, I think the same goes for many of the political things we discussed this morning the same will go for the migration issue. Unless we have real leaders who are at the same time people of substance we will not make much progress, so we have had these two great people of substance, I think this afternoon. Thank you very much, thank you all for being here.