



## JOHN MANLEY

President and CEO, Canadian Council of Chief Executives

Let me say to begin with that I am very pleased to be here, and let me make a couple of disclaimers to start. I am the only non-trade specialist on this panel as far as I can tell, which means I come not only with a pure heart but clean hands. Secondly, at this moment it is 1.58 am in my home, and I may feel the waves of fatigue wash over me at any time, which calls to mind when I was Foreign Minister and travelling all the time. One night I dreamt I was on my feet giving a speech in the House of Commons, and I woke up and I was, so we will see what happens.

This is a panel about trade and politics, and Patrick asked us to talk a little about whether politics is a bigger factor in international trading systems and relationships than it once was. I will argue that this may be a time of great challenge, risk, and opportunity, and much of that will be driven by political considerations, but what has changed is not that politics has become more entangled with trade, but that many other factors are straining the model we have become used to and have been evolving since World War Two.

I will try to make five points. First, politics has always been a factor in trade. It is not that long ago, a century ago, when the trans-border passage of goods was for many governments the only source of revenue they actually had, so how they get their revenue is at its core a political decision. Secondly, think about the implications of the Great Depression in the 1930s, and the passage in 1930 of the infamous Smoot-Hawley Act in the US, which was characteristic of the protectionist sentiment that swept the developed world in that era. Governments felt threatened by the economic circumstances they found themselves in, many governments were overthrown, radical governments came to power, conditions were created that led to global conflict, but at its core was the intuitive belief that the political considerations of the day required greater protectionism.

The post-war global trading system, exemplified by the GATT, was also a result of an alignment of political interests. You had at the time, at least in what we then called the First World, a very dominant US economy, and therefore a US that was prepared to champion liberalised trade, when US corporations were ubiquitous, and when US industrial might made it the dominant supplier of almost everything that the world required, so political interests aligned.

Secondly, I am conscious that I am the only North American on the panel, so I will say some things on behalf of the US which others may disclaim later. Thinking about the North American trading bloc, if that is in fact what it is, it was and it is all about politics. It started with the Canada-US Free Trade Agreement that came into effect in 1989 followed by NAFTA in 1994. Believe me, it was all about politics, and what happened, certainly on the Canadian side, because Canadian governments had lost office over previous proposals on free trade agreements with the US, was that Brian Mulroney, who was in office at the time, literally gambled his government on a free trade agreement with the US. He built a good partnership with President Reagan, they managed to get it done with, I might add, the Trade Promotion Authority, and it came into effect.

It was President Bush who put NAFTA on the agenda, and you will recall that Ross Perot ran in that election in 1992, and some would say literally managed to cause the election of Bill Clinton over President Bush, so in a sense it may have cost him dearly. Remember the allegation that NAFTA was going to create this giant sucking sound of jobs out of the US into Mexico, but it was President Clinton, over the objections of a majority of his senators, that got NAFTA through Congress, and NAFTA was adopted almost simultaneously with the completion of the Uruguay Round and the Maastricht Treaty. Therefore, many things were happening simultaneously at that time, and I would have said, as a member of the Canadian Government at that time, that I believed we had embarked on a process that would keep trade moving forward. Peter Sutherland famously commented that trade negotiations were like riding a bicycle, that if you did not keep moving forward, you could fall off.

Thirdly, regional and bilateral trade negotiations are a rational response to the failure of the Doha Round. Saying that Doha was ambitious would be a bit of an understatement, and my colleagues on this panel, particularly Pascal, probably know how frustrating it was to try to build a consensus around the path that Doha sought to set out, involving developing economies as well as developed ones. Therefore, the rational response has been to develop regional agreements, criticised as a spaghetti bowl, but really it is the only plurilateral game in town. The Canada-Korea agreement comes into effect three weeks from now, and Canada-Europe is in the ratification process, the negotiations having been completed, but these agreements are increasingly consuming most of the political and business energy that is devoted to trade, because there is a sense that these discussions might actually lead to outcomes.

Fourthly, this will not get any better, because the world is increasingly complex, and our political economies are all engaged in dealing with a myriad of very deep and difficult issues, some of which we have talked about over the last two days at this conference. The World Economic Forum recently came out with its global trends for 2015, and the trends they pick out are hard to argue with: deepening income inequality, persistent jobless growth brought on by technological progress and automation, lack of leadership, including the international community's failure to address issues like global warming, rising geostrategic competition among key actors, the weakening of representative democracy, rising pollution in the developing world, increasing frequency of severe weather events, intensifying nationalism, increasing water stress, and health as a critical concern in the economy. How is that for a cheery list of issues that leaders have to deal with? Anyone who wants to volunteer for an alcohol-induced coma may go to bar after dinner this evening, but these are the issues that are top of mind in each of our countries.

The common thread is that politics drives the responses to all of these mega-problems, as you might call them, and it is in this context that trade negotiations are carried on. This makes the traditional trade-offs of a traditional trade negotiation much more complex if not entirely impossible. Finally, notwithstanding all of the above, the process of globalisation is irreversible, and there are several reasons it is an increasingly difficult world in which to carry on traditional negotiations. First of all, supply chains are established, and not only supply chains in terms of how goods and services are produced, but the ageing demographics of some economies will need to be offset by the more youthful demographics in others, so quite apart from an arbitrage of labour rates, there will need to be an arbitrage of availability of labour forces.

The second factor is that, in aggregate, the world is awash in energy supply; even if distribution may be an issue in some places, there is a lot of supply. Technology is ubiquitous and available, and capital in search of investment opportunities is not restricted by national borders to any great extent, nor is it in short supply, so the promise of continuing to raise living standards is, as we have seen over the past 20 or 25 years, is very much alive based on a continuing growth in trade patterns.

Therefore, in answer to your question, politics is indeed alive and well in trade, but it has more or less got us to where we are today. There are no really easy answers to dealing with some of the political conundrums that confront us and create the context for these negotiations, but we need to keep moving forward. Regionalism is here to stay, so our hope is that regional agreements, where they are being negotiated, bring out the greatest possible ambition in their members, and in this way they can spur others to keep up and become building blocks rather than stumbling blocks to greater global integration.

Politicians need to call on trade negotiators to design these regional agreements, whether they are TPP, TTIP or others, in such a way as to make them interoperable with the global trading system. Finally, regional agreements need to continue to inspire global trade rules, or at the very least extend special rules to developing nations. Creating walls rather than bridges within regional agreements risks leaving large parts of the world, such as Africa and the Middle East, behind, and that in a very real way could result in the trade system undermining global security. When you create a system where some groups are outside and feel particularly deprived, that is the key to issues such as regional disparities of income and levels of unemployment that in turn feed regional insecurities and conflict.



**Patrick Messerlin, Professor of Economics and Director of the Groupe d'Economie Mondiale (GEM) at Sciences Po Paris**

The first key lesson I draw from your presentation is that we are trying to do more and more, but at the same time we are achieving less and less. Now, it takes a long time to negotiate an agreement, even a bilateral one, but it takes an even longer time to ratify such an agreement, as best illustrated by the EU-Canada FTA. This is becoming a very serious problem.

The other point is that we should not keep some countries outside. You mentioned the developing countries. But with TPP and TPIP, we may try to keep somebody else outside, namely China. We should be very careful about such a situation.