

“Of markets and men”
Why trade matters

Speech by Karel De Gucht
European Commissioner designate for Trade

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Good evening ladies and gentlemen,

I am glad to have the opportunity - my *first* opportunity before an academic audience in fact, as commissioner designate to share some thoughts and exchange views on international trade in the years to come and on the EU's role in promoting trade.

I was told that this time, *thankfully*, my speech would not be followed by a 3-hour barrage of difficult questions, like in the parliamentary hearing.

Let me start out my speech of tonight by a quote.

“Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular”.

It could be any modern day politician or editorialist making that statement but it is, in fact, a quote by Thomas Macaulay and it dates from 1824 – way before even the first wave of globalisation had taken place. Today, almost two centuries later and with a global economy that is incomparably different in shape and size, it still rings true.

Open markets are still under pressure, international competition is still seen as a source of unemployment and impoverishment, and trade in itself is still perceived to be unfair.

The challenge for policy makers around the world in the months to come is therefore clear: at a time when free trade is seen as one of the things that got us *into* the crisis, we have to support international trade to get *out* of it.

And to be successful in that, we will have to get *back to basics* on trade: convince people that open markets can be a force for good. Tell them why trade matters.

trade and the crisis

First, I think it is important to see *how* and *why* trade was hit by the financial crisis of 2008.

International markets were immediately and greatly affected by the financial crisis and the resulting decline in global consumer and investment demand.

The credit crunch weighed heavily especially on sectors that rely on credit lines - such as the automotive sector - and trade finance, used for 90% of all international transactions, all but dried up.

The steep cut in the global production of goods had a more than proportionate negative impact on international trade because of the more and more segmented nature of the supply

chains. The more international links there are in the supply chains, the stronger international trade responds to growing or shrinking productions of goods in the world.

The economic downturn also led to a sharp decline in prices for primary commodities, particularly hitting countries that depend on the export of raw materials and energy. Russia comes to mind, of course, but many African economies were also gravely affected.

Put together, all this has led to the sharpest decline in world trade since the Second World War. According to the World Bank, last year saw a 14,4% decline in trade volumes, two thirds of which took place in the first quarter of 2009.

Note that this has happened *within* the existing trade framework, while international market rules were upheld and before any protectionist pressures really kicked in.

The way the crisis impaired international trade, I believe, tells us some important lessons about the structure and character of the global economy. Lessons we would do well to remember in finding our way out of the crisis.

More than anything, the downturn proved how integrated the modern economy actually is – not just financial markets but the supply chain of design, manufacturing and distribution.

Today, international trade does not mean buying shoes made in China or a Japanese car instead of a local brand. It means you can hardly tell anymore what country a product really comes from.

What constitutes an American car? Is it one made by Honda in its plant in Indiana or by General Motors in Mexico?

How Finnish would you call a Nokia phone, knowing that at least half of the estimated 100 billion components the company handles every year come from other countries?

And we all know the 'Made in Indonesia' label inside Nike sneakers, but if you would want to print the list of origin countries on the back of an iPod, you would have to make it bigger.

The fact that the production and distribution of a good tends to pass through more and more countries before it reaches the final customer is not done out of altruism but because it allows efficiency gains compared to doing everything at home.

It is because of these gains that trade matters and makes us richer.

This basic reality of economic interdependence is fundamental, and important to underline that now that the deepest recession in decades is behind us.

le commerce après la crise

Mesdames, Messieurs,

Il existe désormais des indications toujours plus claires que le pire de la tempête est derrière nous.

Les espoirs et attentes pour les mois à venir ne cessent de grandir. L'économie mondiale se renforce, les marchés financiers continuent de se rétablir, les échanges commerciaux reprennent et la production industrielle redémarre. Le mois dernier, pour ne citer qu'un

exemple, la production industrielle mondiale a atteint son plus haut niveau depuis juillet 2006 et toutes les grandes zones économiques ont pris part à la reprise.

L'économie de l'UE a recommencé à croître au troisième trimestre de 2009; petit à petit, certes de manière pas encore autonome, et moins rapidement que dans d'autres parties du monde, mais régulièrement néanmoins.

Cela ne signifie pas que nos problèmes économiques soient terminés, loin de là. Le principal défi qui se pose à nous est de veiller à ce que l'économie n'entre pas dans une récession à double creux, suite à une remontée inévitable des taux d'intérêt et à une réduction des déficits publics.

Le calendrier et l'ampleur de la «stratégie de sortie» constituent le problème clé auquel les décideurs politiques de l'UE et du reste du monde occidental se trouvent confrontés.

Pour sa part, la Commission européenne a veillé à ce que les marchés, aux niveaux intérieur et international, restent ouverts.

Face aux pressions protectionnistes croissantes et, parfois, à une rhétorique populiste, les règles du marché intérieur ont été respectées. L'intervention des gouvernements pour sauver les banques et dynamiser les économies n'a pas politisé ni fermé notre économie. L'importance de ce fait ne doit pas être sous-estimée. L'UE demeure un marché unique solide – le plus grand du monde – et la pensée économique qui l'inspire n'a pas changé.

De même, l'Organisation Mondiale du Commerce a prouvé sa valeur en tant que *bien public* inestimable et elle nous a abrités d'un raz de marée protectionniste semblable à celui qui a submergé la planète dans les années 1930. Elle a protégé le monde contre la tentation de faire des bêtises.

Ce n'est pas une coïncidence si les pays dans lesquels les menaces protectionnistes se sont concrétisées sont justement ceux qui ne sont pas encore membres de l'OMC ou qui ne sont pas à présent membres de l'accord sur les marchés publics au sein de l'OMC.

Les structures qui encadrent le commerce international ne se sont jamais révélées aussi utiles que ces deux dernières années.

le commerce et Doha

Mesdames, Messieurs,

Les biens publics, comme vous le savez tous, ne viennent pas de rien. Il leur faut une politique publique pour se concrétiser. Dans les mois qui viennent, il y aura grand besoin d'une coopération et d'une direction internationale pour préserver et affermir les règles du commerce international.

Le fait que nous ayons gardé notre sang-froid depuis un an et demi n'a rien de négligeable, mais nous devons maintenant agir pour renforcer les marchés internationaux. Le commerce jouera un rôle crucial dans cette seconde phase de la lutte contre la crise.

Nous ne sommes pas encore sauvés. Même si le système commercial mondial a réussi à traverser avec succès sa période de crise la plus grave depuis 1949, l'année de naissance du GATT, la menace protectionniste existe encore et pourrait encore relever la tête dans les mois et les années qui viennent, surtout en cas de hausse du chômage.

On ne peut exclure le recours à des barrières non tarifaires délibérées, à des réglementations discriminatoires et à des subventions: même les membres de l'OMC utilisent la marge qui leur reste pour prendre des mesures protectionnistes dans les limites permises par l'OMC.

La meilleure manière de tenir le protectionnisme à distance est de conclure enfin le cycle de développement de Doha.

Le cycle de Doha est important en soi parce qu'il va engendrer du bien-être social, surtout pour les pays en développement; mais il devrait aussi engendrer une hausse du PIB européen de quelque 45 milliards d'euros à plus long terme. Plus profondément, la réussite du cycle de Doha consoliderait tout l'édifice de l'OMC.

Dans ce sens, je crois que l'analogie avec la bicyclette est aussi pertinente pour le commerce international: soit vous avancez, soit vous tombez.

La conclusion «ambitieuse et équilibrée» du cycle de développement de Doha dépendra, comme le sommet du G20 de Pittsburg l'a réaffirmé, de la volonté politique, non seulement, sur les deux rives de l'Atlantique, mais aussi sur tout le pourtour de l'océan Pacifique.

L'UE reste la première puissance commerciale du monde et nous sommes donc largement concernés dans cette affaire. Cependant, la vérité est que les négociations sont actuellement bloquées en raison de désaccords entre les États-Unis, la Chine et l'Inde. Il appartient principalement aux États-Unis de les débloquer, en faisant savoir ce qu'il leur faut pour conclure un accord.

trade without Doha

Ladies and gentlemen,

Global trade liberalisation is, of course, *first best*, but first best is often very time consuming, as the Doha-round, running since 2001, testifies. To boost the European economy through international trade therefore also calls for action on the bilateral front.

In this regard, I am thinking first of all about the Transatlantic axis. The US and the EU together still represent over half of the world's GDP. We are each other's most important trade and investment partners and we share, to a large extent, international economic interests and policy views.

But that does not mean that our markets are barrier-free and that these barriers are unimportant. A recent study suggests that doing away with half the existing non-tariff barriers between the US and the EU would jack up European GDP by 125 billion € or about 1% of GDP, something we should really seize upon because Europe needs all the growth it can muster.

In the Transatlantic Economic Council, which I will be co-chairing as the new Trade Commissioner, we will work on these non-tariff barriers and further integrate the crucial transatlantic market.

When President Obama', in last week's State of the Union, spoke about "doubling America's exports over the next five years, an increase that will support two million jobs in America", the European Union stands ready to work with him on strengthening the transatlantic link of trade and investment.

Apart from the United States, there are other important bilateral relations for the EU to intensify. The Free Trade Agreement with Korea has been initialled and shows that the EU is not only able to open negotiations, but also to close them. It is the most ambitious FTA we have entered into yet.

We have also started negotiations about a Comprehensive Agreement with Canada, and we will deepen our dialogue with China. India, Ukraine, Latin America and the Euromed are other trade links which we will work on in the years to come.

There's an interesting debate on what the eventual result of this regional and bilateral approach will be. For Europe is certainly not alone in this.

The stalling of Doha and the emergence of new global players has given new impetus to preferential bilateral trade agreements. The US is focusing on partnerships in Asia and countries such as Panama and Colombia, and the most active sphere of negotiations may be found in south-south relations or even within Asia, where some 60 preferential agreements are currently negotiated.

The question is: are these agreements *building blocks* or *stumbling blocks* for the multilateral trading system? Will all this bilateral activism act as a crowbar to enhance at a later stage the possibilities within the WTO? Or will they further weaken the political momentum for multilateralism?

There may be economic risks involved, as the international rulebook for trade becomes bigger and more complex. Also, preferential deals may harm the prosperity of third countries. And there may be some geopolitical fall-out to consider as well: will we not end up trading with our "friends" only? And will those countries that are or at least *feel* left out not do the same?

Europe can and will play its part to make sure that its bilateral and regional approach will underpin rather than undermine multilateralism, just as the NAFTA and the European single market of the 1990s supported economic integration on a global scale as well.

Our stance on trade bilateralism is that we will pursue it inasmuch as it allows liberalisation that is currently beyond the reach of the WTO, in other words, bilateral deals as stepping stones for multilateral progress later on.

Put differently, in our view *second best* must help prepare to reach our *first best* option.

trade and public opinion

Ladies and gentlemen,

Just as public goods need public policy, so does political action need public support.

Free trade may be "unpopular in every country", as Macaulay stated, for two hundred years, a politician who is unpopular in his own country tends to last no more than 4.

The case of sir. Robert Peel springs to mind, who as British Prime Minister became legendary for the repeal of the Corn Laws in the 1840s but, having lost the support of his own party, was forced to leave office for good only a few days later. Legendary or not, few politicians will want to follow his example.

In his final speech after being ousted as Prime Minister Peel spoke of being severely attacked by people who, out of self-interest or ideological motives, believed in protection, "but it may be," he added hopefully, "that I shall leave a name sometimes remembered with expressions of good will in the abodes of those whose lot it is to labour, and to earn their daily bread by the sweat of their brow, when they shall recruit their exhausted strength with abundant and untaxed food, the sweeter because it is no longer leavened by a *sense of injustice*."

Today, that sense of injustice is missing. Though abundant and virtually untaxed goods are all around us, few consumers seem to appreciate the roots of that abundance, namely international trade liberalisation.

Peel's biographer, former British Foreign Secretary Douglas Hurd, commented that free trade "was not a philosophy for the narrow-minded or faint-hearted".

Today, we must recognize the fact that a great many people are, if not narrow-minded then at least faint-hearted in the face of the revolutionary technological, economic and geopolitical changes that together are known as globalisation.

If there is any sense of injustice today, it clings not to protection but to trade itself, which is perceived to be unfair.

In that sense, the current economic crisis only added to a more fundamental crisis that was well underway before the summer of 2008: a lack of trust in the benefits of open markets and liberal economics.

Public opinion takes a dim view of globalisation, even of capitalism as such, and the shift in economic and political weight towards the East has strengthened their distrust.

People in Europe, and definitely in the US, are fearful of, even obsessed with, China. Though overall anti-dumping duties affect less than 1% of EU trade with China, the idea that unfair competition from the East is the main result of trade liberalisation has firmly taken root. Reading the newspapers, we might get the impression the West and the East are fighting an endless series of trade wars and though that is far from the truth, we must bear in mind that this impression is dangerous enough in itself.

A recent report by Nomura, a London based international investment and merchant bank, named a series of "political and geopolitical risks" as the number one headache for investors in 2010, in particular the expected rise in American (and, to a lesser extent, European) protectionism towards China, encouraged by continuing job losses and an increasing number of trade disputes either way.

This anxiety, however, is not limited to the West. Workers in Malaysia and Thailand, too, are concerned that the next phase in China's growth will swallow them whole. Not to mention the least developing countries, a lot of which remain convinced - though the facts prove otherwise - that they have only to lose from international openness and competition.

We simply *have* to get this *zero-sum* logic out of the debate on international trade.

For that, we will have to get *back to basics* on trade: explain to people again and again that trade benefits both parties and is at the heart of our welfare and that of emerging economies of every generation throughout history. That international integration has made us more prosperous and that it is the only way of *keeping* us prosperous.

That in today's impressively integrated economy, not only do we *have* to compete, but that we win by doing so, just as we have always done.

trade and Lisbon

Ladies and gentlemen,

At a time when the message and tone of our trade policy narrative is more important than ever, the political framework in which European trade policy is articulated is changing as well.

With the Lisbon Treaty, the institutional make-up of trade policy has been revised. The politics of EU trade policy will no doubt change as a consequence.

Trade is an exclusive competence of the European Commission, which negotiates on behalf of the member states and on the basis of a mandate given by the Council. Since Lisbon, the European Parliament has the power to co-legislate on trade, and it has to give its consent to all trade agreements.

This will make European trade policy more democratic, and add to the legitimacy it is so often thought to be lacking.

It will also thicken the plot. The European Parliament will doubtless flex its muscles in approving trade legislation and try to increase its leverage over trade policy in general. It will attempt to influence the negotiating mandate.

It will be very interesting to see where the new political balance will lead us.

Will the European Parliament side with the Commission on certain aspects - for instance on the scope of the EU's exclusive competence? Will it be the ally of member states or of lobby groups when questions of protecting certain interests are at stake?

Will political or ideological factors increasingly play a role in trade policy, perhaps to the detriment of national interests?

Be that as it may, we must not let legitimate calls for transparency weaken Europe's negotiating position or undermine our search for further trade liberalisation.

Rather, we will work together with the European Parliament to improve our trade position, maximize the benefits and improve public perception.

trade, development and politics

To maintain public support for international trade and keep the European Parliament on board, we will have to cooperate with them intensively, work with civil society and businesses, reach out to anguished voters, understand people's concern about globalisation and answer their questions.

We will have to get our message out, not just on *what* we do and *how* we do it, but also *why* we do it.

Why trade *matters*.

In making the switch from Development Commissioner to Trade Commissioner, I found the contrast in approach between the two particularly striking.

In development policy - which has been one of my key areas of concern over the last few years as minister of Foreign Affairs and of course of my first 6 months in the European Commission - we often seem focussed more on *why* we do it than on all the other important questions.

In fact, the “why” has often been an excuse not to question *what* we do and *how* we do it. Good intentions serve as a pretext for not having to look at the effectiveness and long term results of our actions, or the responsibility of our partners.

In trade policy, the story and the perception is quite different. Much emphasis is put on the intermediaries and the process, on business sectors in trouble and negotiations in progress, while the end result for consumers and for society as a whole is given less attention.

Trade and development aid are *different*. However, they must not be entirely *separate*, since fundamentally, they serve the same aims: raising and spreading prosperity.

That is the reason why I have no trouble at all moving from one department to the next. But trade is not only about income, it is also a conduit for the dissemination of ideas.

To spread our ideals on human rights, individual responsibility, freedom and democracy, we need to forge trade links, not cut them.

Though the debate on human rights and trade is a difficult one - just as the debate on development aid and human rights standards is always difficult to put in practice – we should bear in mind that there has never been an advanced liberal democracy that was not confidently integrated in the international market economy.

Commercial exchange is not just about economic gain for both sides, but about exchanging technology, knowledge and values - the very tools of progress.

Trade is therefore not only a tool of international economic policy, but also of international politics, helping to turn rivalries into partnerships.

Thank you for your attention.