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Europe and the US: Confronting Global Challenges

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

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In a speech at the Carnegie Endowment in Washington DC on 8 November 2007, EU Trade Commissioner Peter Mandelson argues that the European Union and the United States must use their collective economic weight to underwrite the openness of the global economy as it adjusts to the rise of new economic powers and greater global flows of investment. Mandelson says that the US and the EU should use their own openness to "underwrite a strong multilateral order based on cooperation and economic openness".

Speaking on the eve of the first Transatlantic Economic Council meeting, Mandelson argues that the EU and the US had to make the case for open trade and investment at home and abroad – not least through their own policies. Arguing that "the preservation of an equitable economic globalisation should be the core political commitment at the heart of the transatlantic economic relationship" he calls on US and EU policymakers to "engage with economic globalisation, accept it, shape it."

Mandelson welcomes the creation of the TEC and says that it would direct a detailed work programme designed to tackle important non-tariff barriers in EU-US trade and host a serious dialogue on investment rules. He argues that the TEC should also be at the centre of an EU-US dialogue on key global economic challenges. Mandelson identifies:

China, where he argues that the EU and the US should acknowledge China's global trade power status and deal with her as they would any other major trading power: expecting reciprocal openness, and enforcing obligations where they are not met.

Sovereign Wealth Funds, where he argues against a protectionist response in the EU and the US to inward investment. He argues that the need for transparency for state-backed investment required an internationally agreed set of principles for investors and recipients of investment.

The Doha round of trade talks, where he argues that a successful deal not only create new trade but would be a decisive step in reforming farm trade in the developed world, bring the large emerging economies firmly into the multilateral trading system and show that a global consensus was possible on open trade.

For more information on the EU-US trading relationship, see http://ec.europa.eu/trade/issues/bilateral/countries/usa/index_en.htm

The Carnegie Endowment have kindly invited me to talk about global challenges today. I am pleased to do so ahead of the discussions that bring me to DC, which will focus on the current workings and future potential of the transatlantic marketplace.

The transatlantic economy is not only the bedrock of the global economy, it is almost – not quite, but almost - tariff free, especially for manufactures. This is increasingly true for all developed economies. So the agenda that preoccupies us is less about tariffs than non-tariff barriers, the rules that affect the flow of services, trade and investment. Product specifications. Accountancy standards. This is the sort of vital and detailed work that will increasingly dominate the EU-US trade agenda in the years ahead.

Tomorrow morning the new Transatlantic Economic Council holds its first working meeting. The Council, as you know, was the brainchild of German Chancellor Angela Merkel, who championed its creation when Germany held the Presidency of the EU earlier this year. The Council will provide a forum for EU-US senior policymakers to conduct strategic discussions of economic issues – which meets an important political need.

But it will also direct a detailed work programme designed to tackle the important non-tariff barriers that still exist in EU-US trade. Including, for the first time, a serious dialogue on investment rules. By combining the big picture with technical detail, the Trans-Atlantic Economic Council is an important new instrument in the EU-US relationship, designed to tackle the future trade problems between already highly open and developed economies like ours. It is a practical response to the issues that matter to businesses in Europe and the US. And we are determined that it shall deliver results.

The EU and the US in a changing world

What I want to do today, however, is to look at the TEC in the wider economic context. I want to argue that the TEC can and should be the forum where the EU and the US set out our joint approaches to a world in which the economic and political order is changing very fast. The EU and the US account for almost a billion of the world's people, and the bulk of its wealth. While I do not believe that we can any longer dictate the global agenda, we nevertheless still have the collective weight and influence – and responsibility – to shape that agenda – and the answers that humankind is seeking to the shared problems we face. The question I want to answer today is, how? And to what purpose?

Firstly, fundamentally, we must engage with economic globalisation, accept it, shape it. In fact, I would argue that the preservation of an equitable economic globalisation should be the core political commitment at the heart of the transatlantic economic relationship. Equivalent, in its way, to the mutual commitment to democracy that the Atlantic Charter embodied six decades ago. Because, managed right, an economically integrated world is ultimately not only a more stable and more equitable world – it is also our principal means of meeting the increasing number of global challenges that require collective action

The reshaping of the global economy tests our nerves in Europe and America, but it is not against our interests. It is true that some parts of our manufacturing sectors are facing much tougher competitive pressure. It is true that this will force us to think how we educate and train ourselves, and how we ensure that the benefits of economic growth are equitably shared. It is true that because of this, policymakers are under increasing pressure to show that our embrace of economic globalisation is not naivety. To show that closing the gate is not a better alternative. These debates are broadly the same in Europe and the US.

But in an open global market the growing economies of the developing world are also a competitive stimulus and an engine for our own economies. They are a market for our goods and our investment. They are a source of downward pressure on consumer prices and inflation. They are also the driving force that has lifted perhaps half a billion people out of poverty in half a human lifetime – which is hard to argue against.

In defending and preserving this openness the EU and the US are faced with some simple realities. The first is that we now live in a world that is economically multipolar. One billion new workers have entered the global labour force in the space of two decades. In those twenty-odd years China has risen from being a country with which the EU traded almost literally nothing, to our biggest trading partner for manufactures.

In some ways, an older balance of economic power is reasserting itself. In 1830 India and China were the two biggest economies in the world. By 2050 they will again be among the largest. Of course this is not the only way of weighing power in the modern world – far from it - but it is fundamental

The machinery of what you might call 'the Atlantic consensus' – the World Bank, the IMF, the GATT, the G7 or G8 was conceived and rooted in the assumption that the global economic and political order could be governed largely by the Atlantic world. That assumption now no longer holds. The multilateral institutions that survive will be the ones able to adapt to the new 21st century landscape.

The second reality is that economic globalisation means interdependence. This is not simply a question of global supply chains and production lines. Our open markets are a ladder out of poverty for the developing world. Their growing markets are a source of growth for us. A world of growing prosperity and economic integration is a more stable world – even if it does not always feel that way.

For that reason, multilateral institutions and the multilateral trading system will matter more than ever in the global age. There is no going it alone. Our ability to get things done multilaterally will define the extent to which we can shape globalisation in a way that makes it equitable and sustainable and binds in the big new players. It will certainly define the extent to which we can confront huge pressing problems such as global warming, migration, nuclear proliferation and energy security.

So an Atlantic Economic Charter would read like this: promote open global markets as a source of development and opportunity – for our businesses and everyone else's. Resist protectionism at home. Work for a positive reciprocity that creates openness in all markets abroad. Welcome the big new players, and ensure that they have a stake in a rules-based multilateral trading system. Defend the rules, and use effective trade defence measures when people break them.

China

The emblematic test of such an approach for Europe and the US will be China, which we will be discussing during the TEC tomorrow. The number that preoccupies me these days is \$20 million. Because that is how fast the EU-China trade deficit is growing every single hour. Fast enough to catch up with the US-China trade deficit in the next year or so. Two weeks ago China overtook Germany to become the biggest national exporter in the global economy.

China has become such a difficult issue in our politics that it is important to stop and recall the basic fact that openness to China's growing economy is in general a good thing for us – it's a brake on inflation, a competitiveness check and a huge market for our goods and services.

A change on the scale of China's impact on the world economy can never be easy to accommodate. But it is in our interests as much as China's to have China at the table, inside the WTO system, playing by the rules as a major global economic power. We have a joint interest in a China policy that recognises the long term economic and systemic interests that we share. So our first message to China must be one of recognition and acceptance.

Even some of the main points of contention with China are actually rooted in shared interests. We want an end to a managed currency in China that hurts us. But a stronger yuan would also stabilise the Chinese economy by boosting domestic demand and removing some of the massive dependence on export-led growth. Even if revaluation would not, in itself, solve our trade deficits, it would help cool an overheating heavy industry sector which is swollen with overcapacity and artificially cheap capital. Boost domestic demand in China and you reduce the huge levels of precautionary saving that are padding the Chinese banking sector and removing the need for reform.

But the corollary of the acceptance of China's new global status must be acceptance by China that we are going to deal with her as we would any other major trading power – as we would each other.

We have our legitimate complaints about Chinese practices and we should press them. We want China to fulfil its remaining WTO obligations and trade fairly. We need China to reciprocate the market access on which its growth is built. We have a joint interest in seeing the protection of intellectual property rights dramatically improved. China has been perhaps the single greatest beneficiary of a rules-based open trading system in the last decade. Now China must live by those same rules. She cannot expect special considerations. I think this is the only way that we will be able to sustain the political support we need in our own societies to meet the challenges and changes that an open economic relationship with China imposes on us.

Foreign Investment

We need to find a similar balance on the question of foreign investment, especially the operation of sovereign wealth funds. As anyone knows well who followed the Dubai ports issue last year or the question of Gazprom's downstream investments in Europe, this is an area that is highly sensitive and easily politicised.

It would be a fundamental mistake to encourage the public perception that foreign investment in our economies is, in essence, a bad thing – even when the shareholders are foreign governments. Not least because the EU and the US are the biggest exporters of foreign direct investment in the global economy, and some \$300 billion of our own investments depend on the argument that such capital movements pose no threat. Over the last two decades, EU investment alone has created far more jobs in the US economy than the US has lost to China. We have nothing to gain from a protectionist turn in global investment markets. Our own policy must set a global example

I believe the issue of sovereign wealth funds is essentially one of transparency. And the need to determine what is genuinely strategic, and what domestic ownership is genuinely in need of protection. I believe there is a place for oversight of sovereign investment in the genuinely strategic parts of our economies – although determining which sectors those might be is hard enough. I think there are irrefutable arguments for full disclosure of asset ownership by state funds. And I think that we can legitimately expect those who want to invest in our economies to reciprocate by giving access to our capital in their own markets

What we need is a set of principles agreed internationally – a sort of code of conduct for investors and recipients of investment - that will establish the ground rules for the global investment of sovereign wealth. Here again Europe and the US have an interest in working together – and with others.

Doha

It is impossible to talk about the EU and the US underwriting an open global economy without touching on the Doha Round. Doha's success would not only create substantial new trade, it would lock in the openness created in the global economy by unilateral liberalisation over the last ten years, especially in the emerging economies.

Perhaps most importantly given Doha's development ambitions, it would send a powerful signal that the US and the EU are willing fundamentally to reform the support given to their farm sectors to the benefit of developing countries. And, assuming that they too want to play fair, it would bring the large emerging economies firmly into the multilateral trading system with industrial tariff cuts and service sector openings of their own that reflect their growing strength.

After six years there is more or less a deal on the table. It is substantial and valuable. For European export industries; for American farmers; for Brazilian ranchers; for Indian service providers; for the economic development of the poorest countries. It is not ideal for anyone, and less in important respects than both Europe and America had originally hoped for. There is no denying that it comes with a price tag for all negotiators, because it would require proportionate concessions from everyone. There are no overwhelming negotiating triumphs to be brought home from the conference room.

But aside from the losses of opportunity in trade, the cost of failure in Doha would be a much weaker international trading system in which to tackle the sort of issues that now worry Europe and America the most. Weaker because we will have demonstrated what too many sceptics have long believed: that the multilateral trading system is incapable of agreeing on a trade deal dedicated to development. That the large emerging economies are not committed. That there is no consensus on open trade to be built at the centre of the multilateral trading system.

No multilateral trade round has ever failed. For all the reasons I have set out today, we cannot allow Doha to be the first.

Conclusion

Close ties between Europe and the United States are still the main foundation of world politics and the global economy. We have a deep store of shared values, experiences, and interests. The EU is beginning to transform itself from an internal market into an outward looking political actor – as President Sarkozy reflected in his speech to Congress this week. The EU and the US cannot dictate every contour of the global age, but that does not mean we will be dictated to either.

Close cooperation between the EU and the US should not be perceived or presented as an attempt to organise economic change exclusively on their own terms or to block the rise of others, but as a way to underwrite a strong multilateral order based on cooperation and economic openness.

We can only underwrite an open global economy by keeping our own markets open and our own trade fair, stripped of trade distorting subsidies. We can underwrite a collective approach to shared challenges by making it clear we see no alternative route – perhaps most immediately in Bali next month when we sit down to begin work on the next phase of a collective approach to tackling climate change.

Whatever the temptations of disengagement, protectionism or political insularity, they are not in our interests, nor in the interests of the changing world of which we are a part. On the eve of the Transatlantic Economic Council's first meeting, that is the joint message that should ring loud.