

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

**PROMOTING FREE TRADE DURING
THE FINANCIAL CRISIS:
EU TRADE COMMISSIONER**

WELCOME AND MODERATOR:

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SPEAKER:

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GEORGE PERKOVICH: Welcome, everybody. My name is George Perkovich. I'm a vice president for studies here at the Carnegie Endowment and it's my pleasure to welcome all of you here today. We are distinctly pleased to have Catherine Ashton, the European Union's new commissioner for trade, with us today to discuss the challenges facing the EU and the U.S. in the global economic crisis. In particular, Commissioner Ashton will address not only how we best keep the global economy open but also how promoting free trade in the midst of the current financial and economic distress is vital to all of our interests.

Catherine Ashton was born in Upholland in Lancashire, from where she took her title Baroness Ashton of Upholland when she became a British life peer in 1999. She's held a number of senior positions in the British government and was appointed leader of the House of Lords and Lord President of the Council in Gordon Brown's first cabinet in 2007.

Commissioner Ashton brings to her new position significant European experience. Among other things, she steered the Lisbon Treaty through the U.K.'s Upper Chamber, which, as other countries have found, wasn't so easy to do through parliament. She is also an experienced international negotiator, having been responsible for negotiating the international trade and legal services with India and South Africa.

The commissioner has generously agreed to take questions after her opening remarks, and my colleague, Sandra Polaski, the director of our International Trade and Equity Program, will moderate that discussion.

So let me again welcome all of you, and especially Commissioner Ashton, and give the floor to you. Thank you.

CATHERINE ASHTON: Thank you, George, very much.

George, Sandra, colleagues, thank you very much for giving me the opportunity to be here. I thought I might start by explaining to you a little bit about a baroness, and I can do no better than telling you what my daughter Rebecca (sp) said when I was made a baroness in 1999 when she was seven years old. She went to school, to be asked by her head teacher, Rebecca, do you know what's happened to Mummy? And Rebecca said, oh, yes, Mrs. Scrutin (sp), my mummy has become a baroness. And her teacher said, yes, Rebecca, but what does that mean? And she said, oh, Mrs. Scrutin, it's very easy; she's halfway between a politician and a princess. (Laughter.) To her eternal chagrin I'm far too much like the politician and not enough like the princess. (Laughter.) But it's a great delight, and everybody calls me Cathy, so when we get to questions, please, I hope you'll feel able to do the same.

It's a great delight to be here and to have this opportunity. For me the greatest part of it will be when we're able to have our conversation at the end. So I'd like to, in my speech, take you on a journey with me, why I think it's so important that here we are facing these difficult times with trade so much a part of the agenda.

But to begin with, you know, it's been mentioned already that I grew up in Lancashire in England, and I grew up in a very small village. No one in my family had ever visited America but we all knew what the American dream meant, and I suppose secretly we all wanted to be American, so

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much so in fact that my brother, who came to high school here as a 19-year-old, decided there and then that he was going to find his way back to the country he fell in love with and spent the next 15 years finding jobs that could lead him here. He's now very proud to be an American citizen and to have raised his family in Missouri, and I'm very proud to be part of an American family.

But the main reason I suppose we looked back on those days and thought of America was the films and the programs that were beamed into our living room. We saw the land of the free, founded on the principles of liberty and opportunity, where working hard was the route to success and where anything was possible. The America I grew up with was an outward-looking force for good in the world, a nation that defined itself not so much by what it was but by what it had the potential to be: a nation open to trade, open to services, and above all, open to ideas. I believe the European Union shares these ideals. We are a large, open economy. We believe in democracy and liberty and openness. These are the principles that the European community was founded on in the 1950s and they bind our member states together to this day.

I think today we're at one of those moments in history when we need to remember what we stand for. We're faced with the worst economic slump for 80 years, a global economic slump, and the temptation to retreat back into our shells, to pull down the blinds and shut out the world faces us all. It's a natural instinct when faced with a challenge on the scale of the one that we currently face. But sometimes retreat is the wrong reaction. Retreating to the safety of our own domestic markets is certainly a huge mistake. We all know it's what tipped recession into depression in the 1930s and what could turn downturn into downfall today.

So the choice we face is between doing something – what is popular but damaging in the short term and what's right and sustainable in the medium to long term. The European Union is staking its claim on the latter, and I believe the United States should do too. I say this because I've seen doubt creeping in here and there about the United States' commitment to open markets. I suppose the concern is that the United States' system and public opinion have fundamentally shifted, that President Obama may not adhere to the principles of free trade that have made the United States the economic superpower it is.

Actually, I don't believe for a moment that those fears are true. The United States knows it has everything to lose and nothing to gain from turning inwards. The USA is \$1 trillion per year richer as a result of its integration within the global trading system over the past half century. And, interestingly, it's the improvement in the United States' trade balance which provided all United States economic growth – all of it – in 2008. Whatever the difficulties – and there are some – in specific sectors, it's vital that we keep those thoughts in our minds.

And that's why I'm here, partly to meet the new administration. I will see Ron Kirk, who I hope will be my new counterpart shortly when the vote has taken place, and I'm looking forward very much to working with him and his team to drive forward both the multilateral and the bilateral agenda.

I'm under no illusion. We should be under no illusion. The current economic situation is extremely serious and it's almost certain to get a little worse before it starts to get better. The World Bank now predicts a fall in global output in 2009 – not just trade but output. This year we'll experience the first decline in global trade since 1982. Unemployment is currently above 8 percent in the United States. For the first time in my working life it's a high here as in the European Union

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at 8 percent. But it will get better, and when it does we'll be judged on how we reacted when the pressure was on. To put it another way, our future credibility depends on how we act now.

Some governments are starting to feel the pressure to move to shield their economies from a difficult economic environment. You hear talk of raising tariffs and non-tariff barriers, of unfairly subsidizing exports, of introducing local content requirements and stimulus packages. At the moment it's very difficult to assess how economically these are individually, but they carry the risk of what could be a widespread protectionist backlash. The only result of this, in my view, will be an even larger decline in world trade.

But there's a risk I might be misunderstood here. I'm not suggesting for a moment that we should sit back and let the downturn take its course. It's absolutely right and proper that governments invest in their economies, in their industries, in their workforce to protect people in the broadest sense of that word. But that's entirely different from protectionism. Protecting people means equipping them to compete in the world, not trying to pretend the world doesn't exist or that economic forces can be held back. It means investing in education and in innovation. And it means supporting small businesses by helping them to identify export opportunities.

In the European Union we have 23 million small- and medium-sized enterprises. They represent more than 99 percent of European businesses, 70 percent of all jobs, but only 3 percent of them export outside of the European Union, and that's something that I've been working to change to help them grow and develop. Open markets too can seem sometimes like an abstract concept, but they're the only way forward, given the challenges that we face. Open markets deliver huge benefits for both Europe and America, both economic – on both the supply and the demand side in terms of opportunities for our businesses and greater choice for our consumers – but equally importantly, politically in terms of leadership in shaping the future of international trade to deliver a more just and prosperous world for all.

I fully agree with the sentiment that was expressed by President Obama in his inauguration speech where he measured the success of the American economy not just in gross domestic product at home, but in how that prosperity and opportunity is extended to others. So today I want to remake the case for openness – openness which will allow all our economies to trade their way out of trouble, and openness that will renew our global leadership credentials as advocates of free trade and opportunity for all. That global leadership should, in my view, be founded on coordinated action, and there's a lot of discussion at the moment of what that might consist of and more than a little speculation on whether the United States and the European Union will see eye to eye.

Reform of the institutions governing the global economy is clearly a necessity to allow emerging economies to take their rightful place at the table and to improve the supervisory functions of these institutions to make sure that we can avoid repetition of current events in the future. Here the U.S. has a proven track record: setting up the Bretton Woods institutions after the Second World War and establishing the World Trade Organization after the Uruguay riots 15 years ago.

U.S. leadership and commitment will also now be needed if we are to reform these institutions. I believe that together the European Union and the United States can achieve this by investing again in effective multilateralism. Through that we can ensure that global institutions we so badly need are up to the task and have the necessary tools to carry out their function. It's in our common interest.

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We hear a lot too about the importance of both fiscal stimulus and financial regulation in addressing the current crisis. Now, while these are vital – and I mean vital – help to stabilize the situation and make sure it doesn't recur, there is a third equally vital component: maintaining and extending open trade. It's the motor of open trade that will provide the opportunities to generate wealth that will see us through this current downturn. And if we're really serious about keeping markets open, then we should have the courage and vision to deliver on the G-20 commitments of last November. Our leaders made a pledge to refrain from raising new barriers to investment or trade in goods and services, imposing new export restrictions or implementing World Trade Organization inconsistent measure to stimulate exports. We must stick to that together.

To truly deliver on those commitments made at the G-20, we need to turn the rhetoric into the reality and complete the Doha round of world trade talks. This agreement would add hundreds of billions of dollars to the world economy every year and allow the developing world to continue to lift its citizens out of poverty through the dignity of their own labor and the genius of their own ideas. Doha is also, too, our insurance policy against protectionism. Recent studies show that if tariffs were raised to levels still allowed under the current World Trade Organization's ceilings, global income could be reduced by at least half a trillion dollars. That's a large chunk of the financial fiscal stimulus gone.

In the European Union we're committed to concluding Doha, something the heads of all 27 governments in the European Union confirmed when they met at the beginning of this month. But we can't do the deal alone and it certainly cannot be done without the United States. The administration has, absolutely rightly and understandably, made kick-starting the domestic economy the focus of their first 100 days, but time is not on our side if we're to get global trade moving again. We need to rebuild that confidence in the markets by taking the lead in the multilateral arena and we need to strengthen the hand of the World Trade Organization as a model for international cooperation and coordination.

And if the Doha round is concluded, it's certainly not just others that will gain, as some have already claimed. U.S. exports to key markets in Europe, Asia, Latin America will grow, in some cases at double-digit rates. The U.S. trade deficit is expected to improve and U.S. GDP would increase. But let me make a point about the impact on jobs. Our analysis shows that Doha will modestly improve real wages in all sectors of the United States economy for both skilled and unskilled workers and that the net effect of the round will be job creating.

So there is potentially a package, good for the United States, and the basis for moving forward towards a right deal – the right deal at the right time. And let's not forget that only a rejuvenated Doha success can move a rejuvenated World Trade Organization onto the broader agenda which understandably the United States seeks.

So in closing I want to just look for a moment or two at our bilateral relationship. We know that before the current downturn the global economic landscape was shifting. The emerging economies of Asia were gaining ground and had challenged the traditional world economic order. The downturn has not halted that process but the transatlantic economy still remains the largest in the world with more than \$3 trillion in commercial sales and employing more than 14 million workers. The largest chunk of this relationship consists of the stock of investment with \$2 trillion, which is split more or less evenly. And it's worth recalling that U.S. investment in Europe was three

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times more than in all of Asia in 2007. European Union investment in the United States in 2006 was 12 times the level of European Union investment in China and more than 28 times the level of investment in India.

The figures illustrate the hard facts of the transatlantic economic relationship and it makes sense to work towards further converging our market rules and removing existing barriers. On the flip side, our credibility will be undermined and our energy sapped if we persist in pursuing bilateral trade disputes through the World Trade Organization. We have the largest and deepest economic relationship in the world. It's inevitable that trade disputes arise from time to time, but we mustn't forget they affect less than 2 percent of our bilateral trade.

The disputes aren't the result of high tariffs or other traditional trade barriers; they're regulatory in nature and often rooted in the different systems of regulation we have and also our cultural traditions, and that makes them difficult to solve, but we should try because not doing so hurts us both, ties up the World Trade Organization machinery and our trade officials when they have more important projects to work on.

I'm a great believer in dialogue – talking to each other about irritants before they become disputes and about disputes before they become sanctions. I'm determined that we work together to solve these legacy issues and to clear the way for a new era of cooperation that's based on mutual goals rather than mutual suspicion and where disputes are replaced by deals. Well, we have the structures. The Transatlantic Economic Council is one example, and I want those structures to be put to better use. Regulatory convergence would solve 95 percent of the problems we face, but that requires both high-level political commitment and a lot of upstream work. We can agree on mutual recognition of accounting standards. We'll both be shortly engaged in major new projects to regulate our financial markets and implement an international agreement to reduce carbon emissions. I cannot think of a better moment to work together to make these laws convergent, compatible and mutually reinforcing.

So, in the spirit of those United States TV shows I loved to watch when I was growing up, this is the moment in the current crisis when the hero of the hour appears. It's a time when the world is looking for the European Union and the United States to stand shoulder to shoulder and stand for what we believe in, to show the courage and the leadership and the vision that's necessary to banish the forces of protectionism and to ensure a fair and just outcome for all.

And while we know that real life isn't quite like television, I believe that the new administration has that courage, leadership and vision, and Europe is ready to stand side by side with its United States partner to win this fight. Thank you.

(Applause.)

MS. POLASKI: Thank you very much, Commissioner Ashton. Let me start off with one question for you before we open the floor. And, really, it's to give you an opportunity to elaborate on one of the points that was – that you touched on several times in your remarks.

As you mentioned, U.S. unemployment has reached 8 percent. We've had about 2 million workers laid off in less than the last year, and the increasing rate – the unemployment rate is increasing at a faster pace and that we expect it to get worse before it gets better. Some recent

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studies have shown that after financial crises, the most persistent negative effect after the financial system has recovered and asset prices and house prices have recovered is that unemployment tends to persist an average of seven years, and it persists longer, according to these studies, in the developed world than in the developing world, for a variety of reasons that I think we can understand.

That means that we're going to have this problem of unemployment which is both the immediate cause of the collapse in demand because of not only the unemployed but the job and security that infects everyone else. So we have the collapse in demand, which is leading to an actual contraction of world trade, in some cases rather dramatic when we see the falls in exports. And it's also the factor that does much to feed protectionism.

So is there more that governments can be doing? Is there more that can be discussed in the transatlantic relationship about addressing the unemployment, the job insecurity more vigorously, more directly so that we don't have this ongoing undermining of existing trade but also of confidence that open systems are worthwhile?

MS. ASHTON: I was very pleased that you used the word "confidence" because I think part of what's needed to stimulate demand from not least the vast majority of people who are in work and who are enjoying the benefits of low interest rates, if nothing else, is to have confidence in the market sufficiently that they will spend and use their resources well.

I think in terms of unemployment, two things. One is this is a unique recession. The whole of the world has gone down together. Normally you going into recession and Europe will follow you, or vice versa and so on. And we have massive stimulus packages coming in across the world, necessary to keep the economies moving. I was interested when I looked at the breakdown of what's happened in the United States that part of what is being included in the package is of course money for education and training, and I'm a believer, having spent part of my career working on economic regeneration, that if you are able to, in a smart way, use your resources to help people retrain for the jobs of the future, support industry to produce the products of the future – for example, we know issues of climate change provide huge opportunities for new products, goods, services. Then that will help us turn around more quickly.

It's also important that we think about what that future will be. The products that we made 15 years ago – I always joke about, you know, my iPod. I didn't have an iPod 15 years ago; nobody made iPods 15 years ago because they didn't exist. Now they're a huge manufacturing base on technology. The goods of the future will be different.

So the opportunity that we can afford people to retrain, re-skill, reequip; protecting, not protectionism; getting our industry ready for the economies of the future I think could help turn that situation around because for the first time we have huge stimulus packages going in.

MS. POLASKI: Thank you. Let's open to your questions. Yes? And please identify yourself when you –

(Cross talk.)