

**Speech staatssecretaris Heemskerk Erasmus Universiteit  
Rotterdam ter gelegenheid van bezoek Lamy (DGWTO)**

*Alleen gesproken woord geldt*

*Dear Students, dear bright young minds, Ladies and gentlemen,*

The financial crisis has sparked a recession. Banks have lost hundreds of billions. People are losing their jobs. Globalisation and trade mean no country is isolated and so almost all suffer. But I am convinced trade and openness are crucial to recovery. Can we resist protectionism? Can Pascal Lamy save the world?

It is a pleasure to be here with you all today to discuss these issues. And a particular honour to be in the company of Pascal Lamy, who just started his second term as Director-general of the WTO. He not only has wide experience of trade policy and negotiations. Pascal Lamy knows about banking crises, having himself rescued a bank (Le Credit Lyonnais). He has also found time to contribute to the debate about global governance, with his *Towards World Democracy*, among other publications. He is the right man to guide WTO through the current choppy waters. The fact that he holds the rank of “capitaine de frégate” in the French navy may also help to steer a true course.

Today, I will talk about two things: 1) competition and the challenges of globalisation, 2) the challenge of averting

protectionism. Maybe Pascal Lamy can tell us how he will save the world:-)

But first let me give you very briefly some indicators about the openness of the Netherlands' economy and why we attach so much importance to trade. Most of you, economic students, probably know. But for those who don't...

*[Netherlands situation]*

I speak for a country where total trade equals 140% of GDP which is huge, also compared to other countries. And the greater part of our economic growth, be it positive or negative, is trade related. 3% World trade growth means 1% growth in the Netherlands. And vice versa. I *know* that openness is crucial to successful adjustment and recovery. Because jobs abroad mean customers for our products. But the gain of trade is wide and general, whereas the pain is often personal. Which is why preparing people is so important. Preparing them for the opportunities and challenges open trade creates. If I look to the recent figures about the state of our economy, just released this Friday, the near future is not looking very bright with GDP declining, output and consumption falling and decreasing im- and exportquota. Not a bright future scenario for students like you. So we need to take action, in order to boost global trade, which, in turn, can boost Dutch economic recovery.

So let me move to competition, globalisation and the challenges to avert protectionism, worldwide.

***I. Winning and losing: being honest about international trade and globalisation***

*[Competition]*

Markets are about competition. Not all competitors can be winners, nor can they be winners all the time.

Let me take you back to last year's Olympics. Athletes from all over the world compete together, regardless of all the differences which otherwise threaten to divide people. True Olympians will tell you it is the competition itself which is important, not the winning. Through competition, all athletes improve their performance and become the better for it. Not only the winners.

Economists tell us the same is true in the global market place. To compete is to improve one's performance. But there is one big difference in comparing economic competition with a Champion League: in the finals, there is always one winner - others lose. Whereas in the global marketplace one country's gain is *not* another's loss. Just as one person's good health does not bring another's illness.

So my conclusion is that increased globalisation and worldwide competition as a principle is good. Good because everyone can

win. Even in places where you would not expect it. Globalisation results in a different partition of the world economy *and* in tremendous growth of the global economy over all.

But we must not forget that there are possible downsides. We all know cheaters, who do not compete fairly and push fair competitors out of the market or abuse the absence of rules. By ruining the environment or exploiting workers for example. Faul play needs to be stopped and fair play promoted. There are those who simply can not compete, because they do not have the necessary skills, equipment etc to compete. They need a hand, special treatment.

We need to know what the possible downsides are and we need to try and prevent the downsides.

The question is how we can prevent the downsides, or deal with them when they occur..

In my view, three roads should be followed: 1) continue improving the rules based system, 2) make use of assymetry and aid for Trade for poor countries and 3) create opportunities for those who lose

*[1) a rules based system]*

Markets work because people believe in them. The financial crisis has again confirmed this truth. People consent to transact business because they trust other parties and have confidence in the outcome. Markets are a social phenomenon. Without trust,

markets grind to a halt. Trust happens because people behave decently. That is why anyone who has participated in an internet auction through, for example, e-Bay, will have looked closely at the available feed-back concerning buyers and sellers. Are these people decent, dependable and do they meet their commitments? The same mechanism is at work as economic activity becomes more globally oriented.

Of course, trust cannot entirely be legislated or regulated into being. But public authorities and their rules have always played an important part in building confidence and preventing abuse of trust. And it is precisely in the area of rule-making that states have not been able to keep up with the pace at which companies are integrating globally. Integrated global markets require more global governance.

Let's look to Europe as an example of economic integration with governance. Here, integration is accompanied by harmonisation, by mutual recognition of standards and by environmental and labour legislation. The scope and magnitude of measures accompanying European economic integration dwarfs what the international community has been able to achieve. The global economy is becoming increasingly integrated. To some extent integration is accompanied by harmonisation and more uniform governance. There are signs for example, that foreign buyers and investors bring with them high standards, which then spread. And, equally, that companies trading or investing in more

demanding markets take home with them the higher standards they encounter. This is not a race to the bottom.

This is part of the European vision: that trade and economic integration contribute, not only to peace and prosperity, but also to the sharing of values. Corporate social responsibility is a part of this movement which I promote with conviction. It is another way to bring decency to international markets. Clearly, the WTO has a key role to play in supporting these positive integration mechanisms by developing a collective global framework based on enterprise, fairness and sustainability.

### *[2. Asymmetry and aid for trade]*

In the developing world, too, growth and development are not shared equally. Some countries have reached OECD levels of wealth, others are well on their way. But many, especially in Africa and among the least developed nations, hardly participate in the virtuous circle of growth and international commerce. The human misery associated with this situation justifies an extra effort. This all the more so, as the current recession means tens of millions of people will fall below the World Bank threshold of 2 dollars a day. Now is not the time to cut off assistance to these people or to close our markets to their products. What can we do to make trade work for the poor and for us?

It is reasonable to grant such countries free access to developed markets, without insisting on reciprocity. We must provide Aid for

trade in order to help countries take advantage of the opportunities open markets present, for example through building roads and ports so that products can reach foreign customers. Also, openness between developing countries must increase. Developing country trade barriers are both high and biased against exports of other developing countries. Fortunately, there are encouraging signs that countries such as Brazil are ready to open up their markets to the least developed.

It is imperative that we all must work to ensure that global markets become more inclusive! No country should be left behind, everybody needs to have a fair chance, at competing, and winning. We need to get and keep trade flowing, in order to integrate developing countries into the world economy.

Here also, I wholeheartedly agree with Pascal Lamy's consistent call for a more inclusive trading system.

### *[3. Creating opportunities, also at home]*

Open markets and entrepreneurship lead to growth through change. Change can bring insecurity. Jobs, income and the future itself become fragile. We need to create a safety-net to cushion the impact. But this is not enough: we must counter insecurity with opportunity. Otherwise the foundation of consent on which the world economy, too, rests could be undermined. We need appropriate domestic and, increasingly, global policies if open markets are to flourish and create wealth for all. Societies and workers must be ready for change. Governments should not

be in the business of protecting profits. They should prepare people. That is why it is crucial that governments continue to invest for the future, in education and skills. But also in Public Private Partnerships, R&D clusters and invest in a social welfare system which – particularly now in difficult times – provide the right tools to get people from job to job.

## ***II. Protectionist pressures***

So far so good, on the general principles of competition and the challenges of trade and globalisation.

These are difficult , but certainly not impossible, to achieve under normal circumstances. We should however not forget, that right now, circumstances are far from normal. We are going through a moment of economic crisis and turmoil. Economic crises tend to be cause for protectionist reflexes, for inward-looking policy measures. This is understandable but ineffective and possibly dangerous.

Although there are few signs of wholesale and outright protectionism, politicians are still beholden to their national voters and taxpayers. It is therefore very well understandable and right that national stimulus packages, focus on improving national economies. We politicians must demonstrate that we are working for our citizens. But it is also part of a politician's job not to lose sight of the bigger picture. We should avoid taking measures with protectionist effect. Shutting out the rest of the world seldom



solves domestic problems and usually makes them worse. That is why President Obama was right to resist the more blatant forms of Buy American legislation.

This is a matter of international solidarity. With markets everywhere shrinking, protecting a job here through protective trade measures puts extra pressure on jobs in the next country. This is no way to solve unemployment, which is rising across the world.

Consumers, too, suffer during a recession. They do not need the extra burden of protectionism. This is why I recently opposed proposals in the EU to raise tariffs on multi-functional mobile phones and it looks like I, together with others, will succeed. Life is difficult enough without prices going up.

*[What to do?]*

So, what are the immediate requirements to combat protectionism and regain momentum for international trade?

In my view strict monitoring of potential protectionist measures, concluding the Doha round and clearly define the relationship between climate change and trade.

*[Monitoring]*

Short term needs are easy to identify. First, countries must collectively *monitor and resist incipient protectionist tendencies*. WTO is the natural focus of this effort. At the recent G20 meeting

in London, our Prime-Minister was among WTO's most outspoken supporters, and we need to work closely together with Pascal Lamy to further strengthen WTO's monitoring role.

*[Doha round]*

Second, *the Doha round* needs to be completed urgently. What is now on the table will lead to welfare gains of more than 160 billion euro's. This is not to be sniffed at. But there is more. Current commitments leave room for countries to raise protective barriers. If this room is used up fully, worldwide welfare will decline by some \$ 350 billion. And trade will further contract by over \$ 1 trillion. So, in worldwide welfare terms, a successful Doha round means gains and protection against losses together amounting to almost 500 billion euros altogether. We must get on with it.

*[Climate change and trade]*

Third, the relationship between *climate change* and trade needs to be defined. Later this year in Copenhagen, agreement must be reached on how we deal with climate change in the next decades. The economic implications will be big. But the consequences of failure will be even bigger. The trading system must stand ready to contribute.

There are those who argue that trade sanctions should be used against partners who do not immediately agree with us. That is not the way forward. It is difficult to see how a trade war would

help us to exercise what is a collective global responsibility. And who would we target? China? I doubt whether that is useful. Firms in China, that compete internationally do so because they are energy efficient. It is the non-competitive firms which are dirtiest and they generally cannot export. So what are trade measures supposed to achieve? Punish those firms which have already made the effort?

Positive measures are much more promising. For example, freeing up trade in clean goods, services and technology. There is a market here worth \$ 550 billion which needs to work efficiently so that environmental solutions can spread across the world at the lowest possible cost. And, of course, financial aid to poor countries can cushion the cost of adjustment.

There is no alternative to dialogue and strenuous negotiation.

### ***III. In conclusion***

In summary, I see three key points as key to sustainable recovery:

- 1) Promote international trade but be honest about it to those who might not win;
- 2) Continue building an inclusive rules based international system which will be able to deal with future issues like climate change;
- 3) Resist protectionism so one country's gain will *not* lead to

another one's loss.

Pascal Lamy has said that we do not judge a tree by its leaves, but by its fruit. Results count. We need results from the Doha round. And we need results that demonstrate the trading system contributes to welfare that is fair and sustainable. Together with Pascal Lamy, we, the WTO memberstates, need to achieve a deal in the Doha round, to show that the international trading system helps us *all* to emerge from this crisis as winners.