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**JUNE 20–22, 2013**

**The Global Growth Agenda**  
**RE-ENERGIZING GLOBAL TRADE**  
**G20 Agenda. Arena**

**JUNE 20, 2013**  
**16:00–17:15, Pavilion 4, Conference Hall 4.1**

**St. Petersburg, Russia**  
**2013**

**Moderator:**

**Adrian Wooldridge**, Management Editor and Schumpeter Columnist, The Economist

**Panellists:**

**Ivan Glasenberg**, Chief Executive Officer, Glencore International plc

**Pascal Lamy**, Director General, WTO

**Lord Mandelson**, Chairman, Global Counsel LLP; European Commissioner for Trade (2004–2008)

**Gabriela Ramos**, Chief of the Secretary-General Staff, Group of Twenty Sherpa, OECD

**Andrei Slepnev**, Member of the Board on Trade, Eurasian Economic Commission

**Artem Volynets**, Chief Executive Officer, En+ Group

**Front row participant:**

**Nobuhiko Sasaki**, Vice Minister for International Affairs, Ministry of Economy, Trade and Industry, Japan

**A. Wooldridge:**

Welcome. Today, we are going to be talking about re-energizing global trade. The past 20 years have really been a golden age of globalization. We have seen Russia, China, India, Brazil, Mexico, and many others brought fully into the global trading system. We have seen emerging markets growing at a breathtaking and unprecedented pace, and we have seen the rate of extreme poverty around the world over the last 20 years more than halved. So it has been an extraordinary and really golden period. But I think we all have a feeling that something has changed at the moment. It is possibly the end of a period of globalization; it is certainly the beginning of a much more uncertain and difficult time.

We have a distinguished and varied panel today to discuss these issues. We have Pascal Lamy, the Director-General of the WTO; we have Peter Mandelson, Chairman, Global Counsel LLP, European Commissioner of Trade from 2004–2008 and many other things; Andrei Slepnev, the Minister of Trade for the Eurasian Economic Commission; Artem Volynets, Chief Executive Officer of En+ Group; Ivan Glasenberg, the Chief Executive Officer of Glencore; and Gabriela Ramos, the Chief of the Secretary-General's Staff and Sherpa to the G20 – so people from all sorts of interests, all walks of life. This really is going to be structured as a very general discussion. I would like it to be as fluid and free flowing as possible. I want to start off with a very general question to Mr. Lamy, which is: why are global trade talks stalled? Can anything be done to restart them? Or should we simply pull the plug on the Doha Round and start again?

**P. Lamy:**

Well, to answer your question with a little background which is following on from what you just said, my own sense for what it is worth is that globalization will keep going on at a rapid pace. In mid-July, the WTO will publish our yearly scientific fact sheet which will be about shaping factors of world trade for the 10 years to come, and although we are still working on that, the big lesson is that globalization will keep going and that trade expansion, economic integration worldwide, and the

spread of global supply chains will not keep integrating the world economy. There may be, here and there, factors working in other directions, but the main factor, which is that technology is rapidly reducing the cost of distance, will keep moving trade forward. So the question is not whether world trade will keep expanding; it will keep expanding of course depending on the growth of the world economy. We know that South-South trade, for instance, is expanding much more rapidly than North-South trade or even than the North-South-North trade. So the main question remains: how can we together multilaterally, bilaterally, regionally, keep opening trade, levelling the playing field, and making sure that each country can use the best of its comparative advantages?

The big issue for the future is different from what it was in the past. In the past, opening trade was about reusing tariffs, quantitative restrictions, sort of Middle Age-like obstacles to trade. The new obstacles to trade which businesses have to cope with are of a different nature. They are what we call in our jargon 'non-tariff measures', whether this is certification, standards, norms, food safety, lighter safety, toy safety, or whether this is administrative procedures like the ones you have to cope with when you cross a border. The big question there is: how can that be done?

Now, the Doha Round, as it was structured more than 10 years ago, which is a single package of amending the WTO rule book on 20 chapters simultaneously, will not come forward any time soon. The reason behind that is that WTO members have not been able to agree on an answer to this fundamental question for today's world which is whether China and the like are rich countries with many poor or poor countries with many rich. Now, depending on how you answer this question, the view you have of what the trade regime of emerging countries should be is fairly different. And obviously, this has not yet happened, and by the way, you have exactly the same pattern of non-convergence in an area like climate change and carbon emissions, where the problem is exactly the same. Does this mean that multilateral trade opening is stalled overall? No. Ministers have been wise enough to understand that if the big bundle package is for the moment stalled, they can extract

from that low-hanging fruit starting this year. I am not saying it is going to happen, but I am saying it can happen with a big worldwide multilateral agreement on simplification, standardization, and harmonization of customs procedures which have become twice as much of an obstacle to trade in today's world as tariffs. The average worldwide trade-weighted tariff is 5%. The cost of moving trade through borders today is 10%. So if you reduce the cost of border thickness by half, you have the same impact on opening trade as if you would zero all tariffs worldwide. Why is it so? Because this has become a major issue. In the past you had to cross one border to trade; today, you have to cross five, six, or seven borders to trade. So if you have to pay 10% of your trade to cross a border and you have to cross five borders, then this becomes a prohibitive cost to trade. So there are areas where progress can be made. We will probably come back later in the discussion to discuss how much of that can be done multilaterally, especially in areas of non-tariff measures, how much of that can be done bilaterally or plurilaterally, and this remains an open question for the future.

**A. Wooldridge:**

We will continue the discussion, and let us focus on multilateralism and trade talks – why they are stalled at the moment; then we will broaden out later into the more general issue of the future of globalization. Gabriela?

**G. Ramos:**

Well, I would just like to put the conversation in the global perspective because I feel that when we talk about trade, we are always thinking as if it is an end in itself, and trade is a means to an end, and the means to an end has to do with creating jobs, creating growth, and improving the wellbeing of populations. So that is why we are very concerned about the fact that the global economy is probably recovering, but the outlook for growth is sluggish. And one of the reasons we are not having the kind of recovery that we had in previous periods of crisis is that trade is also stalled. It is 3% this year; it was 2% last year compared to the 5% or higher rates of growth

that we had in previous decades, and we need to convince the public that this is a tool to really push for higher rates of growth, for higher rates of investment, and improving the global outlook. At OECD we made a comparison of this crisis to the previous episodes of sluggish growth and downturns that we had in the 1970s, for example, the global oil shocks, and it took 15 quarters for those episodes to completely recover the output gap. Nowadays, we are five years into the crisis, and we are still not yet there, and what is happening is that we have not been able to identify the tools that will help us to push for higher rates of growth. We are still facing the banks in Europe; we are still facing constraints on the fiscal side. We are constrained by many elements, and therefore, one important message that we can take home is to push for lowering protectionism but also to utilize trade as a tool for growth. And that is why we welcome the Transatlantic Free Trade Agreement because we think that will give a very big boost to growth.

**A. Wooldridge:**

How do you explain to the general public that trade translates into jobs and prosperity? There seems to be a disconnect between the world that trade negotiators live in and the world that ordinary people live in. Can you give some examples of how some of the OECD data might translate into vivid examples of prosperity?

**G. Ramos:**

Well, actually, we have been proving that. The problem is that it seems that the negotiators do not want to listen, probably because they have so many vested interests and they are trying to protect certain industries, so they do not want to listen to the evidence. We have been working with the G20 presidencies. With the WTO, we have been tracking protectionist measures. The Korean presidencies asked us to go into a deep analysis of how trade creates jobs, and the answer is pretty straightforward. It does. It does because it creates the environment to invest; it creates competition; it opens the industries to productivity, to innovation, and to

investment. And in reality, I do not think that that is something we need to prove. What we need to have is the willingness of the people that are around the negotiating table to use this evidence that is there and has always been there to push for greater agendas, to push for concessions, and to push for an open market that will help us boost growth. So I would not fall into this fallacy of the protectionist lobbies that will always claim that the jobs are seen from somewhere else because you have these trade agreements. We now have NAFTA. NAFTA was the greatest example of how many jobs were going to be lost in the US. That was not the case. On the contrary, jobs were created there; it created economic benefits for both countries that have led to an integration where the comparative advantage of each economy can be better exploited. So it is more of a political will; it is not a question of evidence. Evidence is there. It is how much we are going to be able to get away from the vested interests that are preventing us from opening markets and to continue progress towards global integration.

**A. Wooldridge:**

I want to focus a little bit more on this issue of multilateralism versus bilateralism, and I wanted to ask Lord Mandelson about the US-EU trade deal which is on the table. There is a great deal of excitement about that in America and in Britain and Europe more generally. I wondered if it is actually going to come off or if many of the issues that could derail it, such as cultural issues and agricultural issues, have not been dealt with, whether we are hoping for too much without any of the more difficult issues being discussed. But also, more generally, I wanted to ask you whether you think it might well be a big diversion, that the real solution to these problems is multilateralism, is the WTO, is something with some really imbedded systems of rules and agreements and whether this will actually just divert energy from the bigger solutions. So EU-US trade deals.

**P. Mandelson:**

Well, my very strong view is that the key question for this panel is how we re-energize the WTO and the multilateral trade system and the framework of negotiation to advance liberalization because I believe that it is from that framework and process that we will – again, when I say we, I mean the world as a whole – will gain the maximum benefits from freeing up trade. Anything that is done bilaterally or plurilaterally can produce benefits. It can provide templates; it can attack not just conventional tariffs but the non-tariff barriers that lurk with ever more force behind borders. But unless those gains and advantages and unless those templates are then multilateralized then by definition, those advantages will always be limited, and in my view, if they work badly and in a limited way and to the detriment of the multilateral system, we are in danger of seeing these negotiations and agreements not reinforcing the multilateral system but fragmenting it. And I think that is very undesirable; it is the consequences of which we will not see immediately or indeed in the short term, but we would certainly suffer from that undermining of the multilateral system in more years and decades to come.

Now, having said that, I think, therefore, the question for the panel is how we re-energize that system. I think we have to recognize that the WTO has been and continues to be a very successful guardian of international trade rules for settling disputes. I think it is a very important and successful forum for debating trade norms. Where it has run into difficulty, for reasons I will describe in a moment, is in providing the negotiating machinery for the multilateral trading system, the object of which, very desirably in my view, is to advance trade liberalization. It is that process that has given us huge economic gains and welfare gains over the last 60 years, and I would like to see it continue to do so. But the truth is that the WTO has very many members. It is a member-driven organization. That means each of the WTO's 159 members has to agree before anything is fully and finally agreed. That is asking a lot from a multilateral forum like the WTO. It has very many players with very many wide, disparate, and varied interests, and therefore, finding a consensus and ultimately an agreement on a trade deal as a whole in order to drive the liberalization agenda is very, very difficult. Once upon a time, it was reasonable to



expect ultimately that the United States and the European Union would arrive at a view and impose it on everybody else by one means or another. That world has gone and it is never going to return. Therefore, the WTO, which has to evolve and reflect that new balance of power and those emerging trade and economic forces in the world, has to find new means of facilitating negotiation and arriving at agreement. This is not going to be easy, especially when in the case of the United States, their trade policy has, for the time being at least, broadly speaking, given up on the WTO format. I would say that the United States has taken a considered decision to step away from and to step outside of the WTO as a forum for multilateral negotiation. It is looking more to bilateral and plurilateral negotiations where it feels that it has more traction and where it believes it can demand more ambition and greater liberalization as a result from those with whom it is negotiating. Essentially, I think what the US is trying to do is to reboot the liberalization agenda outside the WTO and to challenge others to raise their game with the United States in that rebooting. All I would say about that, apart from the fact that I regret it, is that it is a fact of life; it is a reality that we have to come to terms with at the moment but that therefore, we need to get the best out of those regional and bilateral deals, plurilateral deals that are being pursued, and to envelope them or fold them into the multilateral system in some way, in a way as I say that reinforces that system rather than fragments it. And I think that the challenge for the WTO is to find the best means of doing that.

**A. Wooldridge:**

On a purely practical issue, do you hold out much hope for the trade deal between the EU and the US? Do you think it could get through?

**P. Mandelson:**

Thank you for reminding me that I had not answered that question, Adrian. I thought that I had spoken for long enough for you to feel the need to move on to Ivan who I know is absolutely gagging to contribute to this discussion. I think what I would say

about the EU-US negotiation is that, of course, it has enormous potential; secondly I think it is going to grapple with the very hottest issues in trade negotiation, which it will find challenging and that it remains to be seen whether or not it will be successful.

**A. Wooldridge:**

So I am going to turn to Ivan Glasenberg, who is the CEO of Glencore, and I wanted to ask him two questions. Firstly, where do you stand on the multilateral versus bilateral thing, and secondly, how does the world of trade look from your point of view as a practical businessman who gets his hands dirty with real issues rather than these great theoretical issues that we are all talking about? Am I right when I started out to say that things are feeling a bit off, or are things better than they look?

**I. Glasenberg:**

Yes, what we face within the commodities sector if we look at what is happening in world trade, the main issue we have got to really focus on is China in our world because today China consumes 40-50% of the world's commodities, and what we are faced with in regards to China is whether a big amount of the raw product is dug out of the ground in various countries in Africa and Indonesia – and we talk about poverty, and we talk about world trade-reduced poverty around the world, so yes, that definitely would occur because China will have to import a large amount of its commodities from Africa. And Africa, as we have seen, is growing considerably on the back of China because of the amount of raw commodities which have to be taken into China. Now, the big question which is affecting countries, etc., in China is: are we really having fair trade because for a big part of our commodities, the raw product is being dug out of the ground in Africa and Indonesia – these new territories and emerging markets, and the added value of the commodities is not happening in those countries. The added value is happening in China. Certain countries such as Australia have got away with it for years, and they have just exported their raw commodities. And because of the population and the amount of

raw commodity they had, they did not have to have their added value in their country. What is happening today is that all the added value is happening in China. Now, is it happening at a fair cost? When I talk about the added value, a lot of it is the power and when you convert bauxite into alumina or you convert copper concentrates into copper metal, etc. That is a lot of added value, and a lot more jobs can be created in that smelting, refining part of the business. Now, what is happening is these countries are exporting that raw product to China, and that added value is happening in China. But is that being added at a fair, competitive means, or is it being subsidized in the regions in China? And this is what we are facing in our commodities sector. So a lot of the countries which are exporting this raw commodity are now saying, "We want to have export duties and tariffs, and we want to limit the amount of raw product that goes out of our country into China so that added value can happen in our country and we can have more employment and we can employ more people and we can, in fact, on a true like-with-like add that value cheaper than they can do it in China." So that is what the industry is faced with, and we know Indonesia is talking about export tariffs, that bauxite and nickel will not be exported to China in the same amount that it is being exported, and the added value will happen in Indonesia, and people will come and build aluminium refineries which will create a lot more jobs and a lot better added value. The same will happen with nickel smelters; you will build nickel smelters there. And in Africa, you only export copper concentrates, and you will have copper smelters being built in Africa in the Congo, etc., which is happening. There are tariffs today exporting concentrate from the Congo. So how much will this happen, and is this good for the world, or should we rather just export the raw material? But then, is it at a fair means? Are the Chinese competing fairly? Is it on a level playing field or not? And these are the questions we are facing in the commodities sector right now.

**A. Wooldridge:**

And how about the other question of the relevant merits of bilateral and multilateral trade? Does that worry you at all or is it just an abstract discussion?

**I. Glasenberg:**

In what way do you mean?

**A. Wooldridge:**

Well, the relative merits of progressing with trade liberalization through a multilateral means or going down the EU-US route.

**I. Glasenberg:**

What is the EU-US? I think it should be a multilateral; it should just be a level playing field across the board. The flow of commodities should happen freely around the world. I do not think it should be bilateral between two countries. Let it be multilateral because that is what a commodity is. It flows; you produce it in the cheapest part of the world, and it gets consumed in the other part of the world. And in a way, that part of the world can add the added value. So it should really be free flowing. That is what free trade should be on a bulk commodity. And if one country can produce it cheaper than another country, then it should happen in the normal course of events. What you have to remember is that a big amount of the free trade is the freight – the freight advantage that one country may have to another country. So that sets its own parameters and allows one country to have an advantage on export to another country as the further distant country may be, and therefore, should not be an exporter to Japan because it is too far away and the freight element affects it. So I think it should definitely not be bilateral and multilateral.

**A. Wooldridge:**

I want to send out a couple of Russian questions: one for Artem Volynets, which is: do you see Europe as a valuable, vital trading partner, or do you see a great pivot to the East going on in Russia as Europe continues to suffer from its currency problems?

## **A. Volynets:**

Thank you. Europe is still the largest trading partner for the Russian Federation, but as you probably know, last year, China became the largest single country, overtaking Germany, as the largest Russian trading partner. And it is not surprising; we all know what is happening in Europe and what is happening on the eastern shores of Russia. The economic growth is in Southeast Asia, and even at 89 billion trade between Russia and China is still a really, really tiny fraction of what could be possible. And therefore, in this part of the world, we certainly see a major shift from the European part of Russia into the Asian part of Russia as a next growth pattern. In many respects, that will concern the commodities that Ivan is talking about because that is what we have between the Urals and the Pacific Ocean. We have only 20 million people, but we have two thirds of the Russian land with plenty of things inside. Now, Ivan touched on a very important issue affecting free trade which is economic efficiency. Trade creates economic efficiency – being able to produce cheaply in one place and being able to sell to another place. And I would also like to touch upon China because in addition to tariffs, customs, and bureaucracy, there is another major obstacle to free trade that we see in commodities in China, that is, as Ivan mentioned, government subsidies because, for example, 40% of the Chinese aluminium industry is not profitable. Nevertheless, it keeps producing because the government in China keeps subsidizing it to ensure there are jobs and each provincial governor can report back to Beijing that their GDP targets are being met. And we can see it not only in that particular sector but in many other sectors where China strives to be fully balanced in terms of supply and demand regardless of the economic efficiency of that balance. So when addressing the question of free trade, it is not only tariffs; it is not only the customs, but a significant part is the government subsidies as to how it tries to create jobs in the economy and whether it is better to have those jobs outside of a particular country and find different employment for the people inside.

## **A. Wooldridge:**

I want to bring Andrei in very soon, but I just wanted to pick up on this because we have had this issue of subsidies, particularly from China, mentioned twice, and I wanted to ask Pascal Lamy to talk about this and particularly to illuminate something which has puzzled me for a long time which is state-owned enterprises. They are very opaque institutions and there are all sorts of hidden cross subsidies going on. How do you deal with such organizations when you are trying to create a fair trading system, and if you want to talk about the US and the EU, we might do that as well.

**P. Lamy:**

Regarding the point that was just made on subsidies, we have WTO multilateral disciplines on subsidization. And by the way, these disciplines are stricter for manufacturers than they are for agriculture. The general rule is that you should not subsidize a producer if this has a negative impact on one of your international competitors. This is what we call in our legal jargon 'actionable subsidies'. If a country gives a subsidy to a producer and another country can demonstrate that this subsidization is unduly impacting trade, then you go to the WTO; you take the country which you deem unfairly subsidizing, and there will be a determination, an adjudication whether or not this subsidy is or is not impacting trade. Let us assume a country subsidizes energy for households. My guess is that it will probably be assessed as not having an impact on international trade. But if you price your energy 100 for your domestic producers, whereas the international market is 200, then the appreciation will be different. So we do have this, but to be frank, the stitches of the net of disciplines are reasonably wide as compared, for instance, to the regime that the Europeans have within the internal market with a policy and a strong competition authority. It is very, very different. Whether companies are state-owned or not is not a parameter in the WTO. WTO rules are neutral vis-à-vis the ownership of the equity of a company. Again, it is not like the European Union where if a state-owned company gives capital, the state as a shareholder injects capital in this company; there will be a sort of suspicion that this is state aid.

**A. Wooldridge:**

But that is going on in China on a massive scale.

**P. Lamy:**

That is what you 'say' is going on in China on a massive scale, but again, as for existing WTO rules, whether it is state-owned or privately owned does not make a difference. Now, in my view, the conclusion of this is what WTO members had in mind when they started the Doha Round, namely that the stitches of the net are too wide and they need to shrink which, by the way, was one of the 20 topics on which, in 2001, when they launched the Round, WTO members agreed that disciplines should be reinforced, the problem being, and I am very frank on this, that this area of negotiation has been incredibly inactive. And I am always surprised when I listen to business people talking not only about China, but also about many other countries, that they complain that this is distorting trade, whereas the electroencephalogram of subsidy negotiations in Geneva has remained flat for 10 years.

**A. Wooldridge:**

And US-EU?

**P. Lamy:**

I admire the way Peter addressed this question. It is like a porcelain pot; I hesitate to touch this in case I break it, but suffice it to say that this EU-US virtual potential plan and possible deal is only one among five animals of the same category on this planet today. You have the Trans-Pacific Partnership; you have the ASEAN+6, Pacific whole plus India negotiation; you have the regional economic partnership between China, Korea and Japan, and you have the bilateral EU-Japan negotiation. The big issue behind this is: does it converge? Will it be coherent, in which case, fine. We will have a new multilateral, level playing field – a bit of a problem for the

20% of the world economy which is not part of this 80% such as Russia, Africa, Brazil, or Argentina. If it does not converge, then we have a serious problem because then there will be different regulatory trade regimes on this planet which is not what business is looking for. Business is looking for larger, level markets. And this remains an open question. As I said this morning in another discussion, when I discuss it with Brussels, they tell me, "Do not worry; we will make sure this is coherent." When I discuss it with Washington, they tell me, "No problem; we will ensure coherence." When I discuss this with Tokyo, they tell me, "We are going to make sure this is coherent" – nonsense, by the way, because Japan is the one which is involved in the biggest number of these agreements. Whether multi-dollar coherence is possible or not, we will see. So there are obvious potential benefits, and I will just repeat what Peter said; there are obvious potential benefits if this leads to a regulatory, harmonized, coherent space. There are obvious dangers, either if it fractures or for the players if one of the players tries to dominate the game of regulatory harmonization.

**A. Wooldridge:**

Andrei Slepnev has been waiting very patiently, and I would like to ask him about Russia's accession to the WTO and the global trading system more generally. How has that changed Russia? And also, if you could talk about that but also look forward to what the current trade agenda is in this country – tell us a little bit about that.

**A. Slepnev:**

Thank you.

Going back to the previous discussion, I would like first of all to voice a few general thoughts about what we have already heard.

Initially, the question was why WTO talks have somewhat stalled and why they are not achieving results. I would rephrase this question. Is there a general global crisis



when it comes to the idea of liberal trade; are we facing, so to speak, the spectre of 'reprotectionism'?

I would say most likely not. Everyone knows that despite the crisis and all the problems, open trade enables growth. This is already clear and has been tested, and Russia, on acceding to the WTO, has confirmed through its actions that it holds this point of view. By building an integrated Eurasian Union, it is essentially taking a step in this direction, but at a more advanced stage.

Another important question was: is there a crisis in the WTO negotiation model? I think that such a crisis does exist. Partly as a result of the fact that Mr. Lamy has been working very hard on this, the WTO now demonstrates a good return for all members. In some cases, national egoism outweighs the humanitarian aspirations of many members of the organization. This is not necessarily a bad thing. The problems lie beyond the jurisdiction of the WTO. I am talking about incoherence in technical regulations, phytosanitary standards, and everything connected with these – in the fields of standardization and particularly in customs policies. This is what the G20 is now discussing. We know very well that, for example, uncontrolled issues of reserve currencies lead to the export of inflation, and inflation reduces global demand. Is it surprising that trade is not growing, if global demand is decreasing? These problems, which are also worrying the G20, probably need to be solved.

Regarding negotiation models, broad negotiations have to a certain extent exhausted their internal momentum. The answer to this has been free trade agreements – both those which have been announced, and those which are already in operation. Work is underway to gather the potential for the next step in developing a global trade system, based on unifying all of these agreements. I would agree with the concerns of Mr. Lamy that the WTO should continue to play the role of rule maker, as the agency which will systematize regional agreements, and perhaps even strengthen discipline in this area to make the agreements coherent. The WTO has a committee on regional trade agreements, but it cannot be said that it is strict, and it does not lay down strict rules. Perhaps it would be worth

going down this path because otherwise, it will be impossible to ensure the coherence of new forums, and we could end up in a situation analogous to an ebbing tide, where reefs, sandbanks etc. appear, leaving many ships stranded. Therefore, I would like the WTO to retain its role of rule maker on the standardization of model agreements.

Coming directly to your question regarding Russia's policies and Russia's understanding, I would say the following. Of course, the Russian Federation joined the WTO and this was a major step, a strategic step. The intention of this was, primarily, to resolve domestic problems by improving the competitiveness of the economy. It is not surprising that Russia is not working as actively externally, since we are working very actively internally. This strategic step of entering global trade needs to be translated into concrete government decisions. Companies should also recognize that they are players on the global market and rethink their particular strengths – focusing not on the Russian market, or even the Customs Union, but on the global market. They must see themselves as players on this global market. This rethinking requires serious effort, and, it seems, this consists of a specific main idea, which is currently being 'digested' in Russia.

We understand very clearly that accession to the WTO is necessary to begin to operate on the global market. It has opened the door to a whole range of next steps. In particular, immediately after acceding to the WTO – and even in parallel with this, as part of the Customs Union – we began negotiations with Belarus and Kazakhstan, then with New Zealand, with the European Free Trade Association (EFTA), and – literally just this spring – with Vietnam. Not to mention that we are preparing a whole set of similar actions which would move us to a new phase and create new realities, knowing that the standard for trade is moving from the WTO standard to the free trade standard. In this regard our policy is consistent – it follows a trend. Of course, we will undoubtedly discuss this further, including tomorrow at the Forum. This leads to many questions from business and there is serious work to be done within the country.

Thank you.

**A. Wooldridge:**

And do you have any position at all on EU—US trade deal? Might it happen or might it not?

**A. Slepnev:**

This is a big challenge for the multilateral trade system: I would call this a political earthquake. If I am not mistaken, literally this week we heard the news that negotiations have formally begun. This was announced by the US President and the President of the European Commission. We understand the reasons for doing this and we also understand the difficulties. I would like the multilateral trade system to be involved as much as possible in forming the new rules of the game, which are undoubtedly necessary if we are to get out of the crisis.

**A. Wooldridge:**

Gabriela?

**G. Ramos:**

I feel that the table is a little bit pessimistic or careful or conservative about the Transatlantic Agreement. It is probably because you know more and it probably is because you are in charge of ensuring the convergence and the coherence of the multilateral trade system which is the outmost model. But I feel that that is great news. I think it is great news because we have been in a period of this very sombre outlook, as I said, but also in a stalemate of the multilateral discussions. Every time we are there, we are trying to push; we are trying with the WTO to provide all of the evidence, as I told you, in terms of how much we will gain for each of these agreements, and they do not move. And of course, we hope that value will bring something about, but still, I am not very optimistic about it. The fact is that you have here a group of countries that are saying, "Let us give it a try." It is 50% of the world's GDP; it is 30% of the global trade, and it is 20% of the global investment.

How much are they going to grow and advance a real integration agenda? I am not sure, but I think the political message is fantastic because you have this kind of push. The other point is that, as Pascal was saying, it is going to be a test of the new trade discussion that we need to have because even though they need to produce tariffs or not in certain sectors, the fact is that they need to go for what he mentioned: the more regulatory convergence, the more non-tariff measures, the real issues that are now defining the competitiveness, and the openness of the economy. So I think that it is very good news. I am sure, and I can tell you that I am Mexican, and the NAFTA region is very concerned about what it is going to take, what it is not going to take, how it is going to affect the position in terms of the economic unit that they have formed, but in any case, I think it is positive. There was something else that probably Pascal would confirm or maybe not, but one commentary after lunch which created exactly the same kind of antibodies among many countries, they say that it probably gave a push to the Uruguay Round; it probably changed the mindset because people were so scared that somebody was moving ahead without really bringing everyone together. I think we should give it a try. The other point is that if we are also able to try to instill in these negotiations the new reality of how trade really happens and consider the global value chains, which is this fragmented production chain where you cannot determine that one country is the owner or the producer, the interlinkages are so much more complicated that I hope that the work that we are doing with the WTO in terms of the documentation and putting together this new reality will also feed into a real discussion in these trade negotiations and then to push the agenda forward because I have not heard good news in the last five years. There has not been very much good news in terms of recoveries starting in the US and Europe. And then suddenly, you have another incredible downturn because of the banks or because of Cyprus or because of the debt or because of the sequester. This is good news, so I would say, "Let us give it a try."

#### **A. Wooldridge:**

I am going to ask Lord Mandelson to talk for a bit, then Pascal Lamy, and then I am going to pause for a moment to get perspective from Asia.

**P. Mandelson:**

I am simply going to say that whether this is good news or not, Gabriela, it is better tested at the end of the negotiation rather than at the beginning. Simply stated, the launch of a negotiation – and I have launched many myself – does not actually change a thing. It depends on what is negotiated, at what level of ambition, with what real economic benefit, and I would add to that our success or otherwise in importing the outcomes of such agreements back into the WTO. I find it a little bit strange, to be honest, that the OECD – I understand the political point that you are making – but I would have thought that the OECD would need to take a slightly more rounded and longer term view and apply a slightly more rounded judgement than simply to say, “Let us all applaud something because it has started.” Fine. As I said at the beginning, it has considerable potential, but it only has potential if it is realized, not simply by talking about it. And it is true that the WTO may, in a sense, move to become more of a marketplace for different sorts of negotiation and different sorts of agreement. In a sense, I would like to see the WTO become that in which people from different countries or groups of countries are able to shop around in that marketplace of the WTO for the sorts of negotiation and agreement that suit them. But I would just stress that whilst I welcome coalitions of such willing negotiating partners, there does have to be a certain threshold of ambition above which you stand the chance of getting a real economic gain and below which all you are doing is engaging in a piece of political theatre and that secondly, I would like to see the WTO’s role established formally in providing the coherence of these different negotiations rather than elbowing the WTO aside and simply allowing the continuation of a glorified spaghetti bowl of different agreements being created.

**A. Wooldridge:**

Glorified spaghetti bowls?

**P. Lamy:**

I agree with Gabriela that all this excitement is good news because at the end of the day, it shows that the main players – the economic players on this planet – the EU, the US, Japan, China, and a few others desire to open trade more. That is good news, and by the way, it goes against a sort of generic feeling that globalization has been a bit too fast and that we now need to take a bit of time to relax before the next stage. This is good news in that it expresses a willingness to open trade. But I also agree with Peter that this raises the next question which is: if everyone is ready to do that, why not do it multilaterally? Why is it that you cannot do it multilaterally if you can do it plurilaterally? What is the big difference? That is a legitimate question. If I am a Russian, or an African, or a Brazilian, it is a question that I will have. Why not with me? Am I not honourable enough to be part of your coalition of the willing? And by the way, who is the willing? If you take China, Korea, or Japan, who is the willing? Is it China? Is it Korea? Is it Japan? In the EU-US, who is the willing? So this question, which is a more political question, cannot be just hidden under the carpet. At some stage, the jury will have to sit – not now, but it will have to sit. Let us be very clear on the lesson of experience that starting trade negotiations is like a ceremony for the cornerstone when building a new school. If you compare the number of ceremonies to the number of schools built, there is quite a difference, and we have; I do not know whether some of you have been to this formidable cemetery in Buenos Aires which is called La Recoleta, where you have formidable funeral monuments of those who died. And a number of these big, extremely exciting trade negotiations which were launched in the last 30 years are in this cemetery with very nice funeral monuments. So we also have to look at the lesson of experience.

**A. Wooldridge:**

Now I would like to bring in Mr. Nobuhiko Sasaki who is from the Japanese Ministry of Economy, Trade and Industry to try and give us a perspective from Asia.

**N. Sasaki:**

Japan is joining TPP negotiations in July, and China-Japan-Korea FTA negotiations started in March. And as Pascal said at the outset, the regional comprehensive economic partnership by ASEAN+10 countries plus six countries negotiations started in May. How can we avoid the spaghetti bowl phenomenon in these mega-FTAs which are occurring simultaneously? Well, I think that Japan should play a big role since Japan plays a pivotal role in these mega-FTAs which are occurring simultaneously. And what we should not forget is the importance of the WTO – the role the WTO plays, the judicial, and logistic function to the world trade for a long time – and the importance should not be forgotten. We should all keep in mind that we are all coming back to the WTO and share the view and maintain the coherence as Peter Mandelson said. That is my view. And what is going on in Asia now is that there are pathways to FTAAP, the Free Trade Area of the Asia Pacific. The idea was agreed upon by APEC leaders some years ago, and now there are many mega-FTAs going on. But it is quite natural for the government to provide a better business environment to the industries, and this is the natural flow. We should do it but come back to the WTO. That is my opinion. Thank you very much.

**A. Wooldridge:**

If you go back 100 years to 1913, many people would say the same thing as Pascal Lamy – that things cannot possibly go wrong because technology is integrating the world, trade is integrating the world, everybody is getting richer as a result of globalization, and of course, things did go very wrong. If things were to go wrong this time, what would it be? What might be the one thing that could really disrupt the world economy and create a new period of regionalization or globalization? What do you fear most?

**P. Lamy:**

I think that ruptures of the kind that you have mentioned – and we have had several previous phases of globalization in human history – never came from trade. They came from external factors. Trade expansion has always been a soother. Trade expansion has always been a sort of peace element. What did provoke the disruptions were purely political, military, security, ideological differences, and one of the reasons I believe that trade opening is conducive to a better worldwide situation is that I think it adds addressing these ideological differences, factors, with cultural perceptions – not that it will harmonize them, but it is a good way to an education, to living with different systems. So I think I can see why climate change, if not properly addressed, would create tensions because of population immigration or changes that would impact economic and social fabrics in such a way that populations would react aggressively. I can see why ideological differences or purely political differences might crystallize as they did in the past on the corridor somewhere or on an island elsewhere, but I do not think things will come from the rationality of better and more efficient use of capital, labour and national resources, which is what expanding trade has always been about.

**A. Wooldridge:**

Gabriela, what do you most fear in terms of disrupting globalization and global integration?

**G. Ramos:**

Well, not disrupting – what I fear is that we would not be able to understand how interconnected we are. And that is why I brought up the question of global value chains because the fact is that we continue framing the debate in a way that is a win-lose situation. The fact is that all the interconnections and investment in trade and production and services is so deep that we need to understand that whenever you raise a trade barrier, whenever you close your capital inflows, you are not protecting your economy; you are damaging it. So I fear that we are not strong enough to convey this message to the politicians that need to make the decisions to



continue opening the markets. And the fact is that it is, of course, a political message and, of course, we need to see what is in there and if it is for real and we have seen in the ongoing discussions the stumbling blocks in terms of the negotiations. But the fact is that we continue to live in a world in which we are winners or losers. The fact is that we are much more integrated, and we need to understand that. We need to really upgrade our thinking and upgrade our discussions to see how far we can even harm ourselves by making decisions that were supposed to protect certain industries within our economies.

**A. Wooldridge:**

Lord Mandelson, are we being too rationalistic about this? Are the real worries about the growth of populism across Europe – is there not real potential for a backlash which will damage globalization, and how can we avoid it? How can the old left, for example, be reconciled to globalization, or the new left I mean?

**P. Mandelson:**

The old left has to come to terms with globalization and become the new left, obviously, and they have to model themselves on ideas and parameters and disciplines of a more modern social democracy rather than trying to live in the past of a global economy, of behaviour, of rules, which were almost a pre-technological phase. I was going to answer your question, Adrian, by saying what makes me most fearful is, of course, the global financial system resuming its previous fast and furious breakneck speed, driven again by technology overheating and blowing up. That makes me worried. But the second thing that makes me worried is, as you say, a social backlash. Globalization, for the majority of people, spells ever greater and more rapid change, which makes people insecure. Secondly, it seems to be operating in a way that is beyond the management or control of the normal political institutions and governments that people most identify with, the national ones. Until more effective international means of global governments are created that people identify with and that people feel have some accountability to them, people are

going to continue to look to national political institutions. And it may well, therefore, be that you are right – that people do not readily see globalization delivering an improvement in their standard of living or their opportunities or their jobs, and their future security is going to trigger a backlash, which will be very hard, indeed, to manage were it to happen.

**A. Wooldridge:**

Ivan, I think you should have the last word.

**I. Glasenberg:**

I agree with Peter. I think the biggest problem, if we do have globalization, is going to be transition. Some people, some businesses, will not be viable because it would be better to do it in other countries, so people will lose their jobs during that time. And during that time, they will transition to another type of business, and during that transition, you are going to get oppression, and you are going to have problems in those countries. I think another point that concerns me, and it is what Pascal said, clearly, that countries are not allowed to subsidize under the WTO rules, and the question is, what is a subsidy? We were talking about whether it is government, whether it is private industry, whatever it is, there should not be a subsidy. The big question is: how does the WTO monitor subsidies? And we were talking about power prices in China, for example, and that is in effect. Now, what is the subsidy? Pascal said they cannot sell power below what they call a fair price or whatever you determine a fair price to be. But let us assume they are selling power; these are between government enterprises just to keep GDP going, and they may sell power at a fair price to an aluminium industry, for example, but that aluminium industry is paying half the price and is losing money and never makes money, but it keeps getting a loan, and another loan, and another, and the loan builds up, and it never has to repay the loan. Is that a subsidy? And this is the question. How are you going to determine...

**P. Mandelson:**

Destroying other people's jobs in other countries.

**I. Glasenberg:**

Correct. Well, that is what I am saying. And in the process you are destroying jobs in other countries, so the subsidy – determining what a subsidy is – are they selling at a fair price? They may be, but suddenly the loan – and we know that in these regional governments, what happens within the regional areas; they are getting loans from the central government, and then we all know how the system works there – how is the WTO going to monitor that, and what is that subsidy?

**A. Wooldridge:**

You have something on your agenda for the future, if not to add to all your other things on your agenda. Thank you very much to everybody here for giving us a really interesting overview of what is happening in the world trade system. Thank you.