

Is globalisation sustainable and what are its major challenges?

Speech by Peter Mandelson at the Globalization Seminar

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I've just come back from something of a globalisation road trip: South East Asia, Shanghai, Beijing, Delhi and Doha. As always the first thing that strikes a European in these places is the raw pace of change: a billion lives changed in what is the historical equivalent of overnight. The second thing that strikes you is the very great extent to which although our politics remain largely national, our economic future is increasingly interdependent and collective. Our hope and design must be that the politics starts catching up faster with the economics.

The Indian and Chinese decision to abandon import substitution twenty years ago effectively created the modern global economy. Access to the open markets of the developed world has been the engine for their growth. It is still the determining factor in their and others' long climb out of poverty. It created the Indian IT boom. It has unleashed the huge manufacturing potential of China.

And as a result these growing economies have become a growing and important source of demand for the developed world. It is in everyone's interests that they have the capacity to take up some of the slack in the global economy if growth in the developed world cools as it is widely expected to do.

So this interdependence is more than just a question of supply chains for the developed world. The growth of the emerging economies is now a central dynamic of the global economy and the underpinning for a billion livelihoods both here and in the developing world. The global economy can echo shocks around the world – as the fright in the credit markets is reminding us. But its greater role is as the conveyor belt of economic prosperity – so long as we set out policies that support a balanced globalisation that distributes benefits and opportunities in a progressive way.

Of course, rapid change often unnerves us, and globalisation has pretty much rewritten the playbook on rapid change. It is no wonder that many people see globalisation as something threatening or uncontrollable. But what is utterly clear when you travel to Shanghai and Beijing and Delhi, or Latin America and Africa is not how inevitable or unstoppable globalisation seems, but how relatively precarious it could become.

There is nothing in the current level of integration in the global economy that is irreversible. Politics played a key role in producing globalisation, and politics can reverse it. The question of whether globalisation is politically sustainable is what should pre-occupy us.

Open and closed

One of the most powerful metaphors for the globalised economy has been the flat world. The problem in Europe and the US is that too many people see globalisation not as a flat world, but as a world that is increasingly tipping against them.

When I talk about the 'emerging economies' my friend Kamal Nath in India likes to tease me jokingly about the 'submerging economies' of the developed world. But this is how many in the developed world feel.

They feel the costs of greater global competition in certain industries like textiles or labour intensive manufacturing. They see the very real problems we have ensuring fair treatment for our exporters in some parts of the emerging world, and they conclude that the EU respects the rules, while others do not.

The result is a new anxiety about the openness of our economies in Europe and the US. The centre ground that economic progressives occupied ten years ago, in rejecting both neo-liberalism's unquestioning faith in free markets and the left's disdain for market economics, now feels less like the centre of the debate.

Bill Clinton signed NAFTA (North American Free Trade Agreement). Hillary Clinton apparently believes that it is time to reflect on the value of free trade. The apparent scepticism about a Doha world trade deal that Mrs Clinton expressed in the Financial Times this week, and her suggestion that there is a need to shelter American companies and interests from foreign investment, are a disappointing sign of the times. But this is not a debate between left and right, so much as between open and closed.

I believe the basic case for an open economy and an open world is compelling, and I think it is sustainable if we get the politics right. What do I see as the key challenges in defending openness?

Keeping our own markets open

The first is the political challenge of keeping our own markets open and refusing to be drawn into a downward spiral of protectionism. Although we live in a tough, competitive world, the long-term interests of the European economy are much better served by opening the markets of others than closing our own.

We are right to insist on fair trade and a certain degree of reciprocity from our trade partners, especially the booming emerging economies who are using access to our markets to fuel their own growth. An activist approach to reducing barriers to trade and tackling unfair trade is the only way to maintain support for open trade in Europe.

What we should not do is respond to barriers with barriers of our own. It doesn't make economic sense, not least because Europe has the world's longest and most sophisticated supply chains, and a barrier that protects one part of European industry can easily hurt another. That is why those who argue for negative reciprocity in defence of the EU economic interest are usually taking a selective view of the EU's economic interests.

The debate on Sovereign Funds captures the essence of the political problem. For decades the developed world has been an exporter of capital. The growth of surpluses in the emerging economies and the development of sovereign wealth funds raise the issue of foreign direct investment in our own economies. 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 government-linked. Last year more than half a trillion developed-world dollars in foreign direct investment crossed a national border. Those investments depend on the argument that cross-border investments pose no threat.

So, while we can and should demand proper arrangements for the governance of government-linked investment vehicles and exercise some oversight when they invest in those few sectors of our economy that are genuinely strategically sensitive, this has to be done with extreme care. Economic nationalism provokes economic nationalism, and then

everyone starts to lose out. Politicians have a huge responsibility not to overstate the risks attached to open investment because we have nothing to gain from a protectionist turn in global markets.

An insurance policy against uncertainty: Doha

It seems likely that we are entering a period of relative vulnerability for the global economy and, perversely, that is of course the moment when the logic of protectionism is most tempting.

That is why I would argue that Hillary Clinton's doubts about the value of a Doha trade deal are misplaced. I have argued many times before that Doha's success would not only create substantial new trade, but it would also act as a ratchet in the global economic machinery to stop it sliding backwards. It would lock in the current openness of the global economy and act like an insurance policy against future trade politicking.

Of course, globalization should be seen to benefit the many rather than the few. In the US, two decades of rapid economic growth have not been reflected in rising median wages for the middle class and the poorest. But the solution to these public policy problems lies in fiscal and redistributive policies, not US economic isolation from globalization. The suggestion of US disengagement from leadership in the open global trading system is an unfortunate one.

There is also a wider question of equity, and the responsibility of the US and the EU to underwrite an open global economy based on clear rules with their own openness and their own commitment to fair trade. Not least, a Doha deal 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.

Equitable globalisation

Of course, all of these questions of economic management depend on a bigger political challenge. There is no question that globalisation will be unsustainable if it is perceived as economically harmful and socially unjust. People will not tolerate globalisation if it appears to carry an unacceptable degree of personal economic risk.

Above all that means recognising that rapid economic change brings costs as well as benefits. Global competition is reshaping some parts of the European economy and that change is often painful for individuals and families. Economic adjustment may be necessary and valuable, but it also needs to be fair. One of the things that I am sure will come up again and again today is the need to show solidarity with people dealing with change through modern welfare systems. We need flexible labour markets to help workers move. And because people will move between industries we need life-long education and training to help them do so, and financial support while they do. That must be the starting point for progressive policy-makers.

Quite rightly, the same issues of equity should be at the centre of our trade policy with the developing world. The Economic Partnership Agreements that the EU is negotiating with the African, Caribbean and Pacific countries have been misrepresented as a market grab by the EU – almost bizarre given the zero level of interest that EU businesses have shown in these negotiations.

In reality, the EPAs have put in place both unlimited access to the EU market and the conditions for gradual economic liberalisation in the ACP countries over very many years, with careful carve-outs for sensitive agricultural products and growing industries. This

process is supported by more than 23 billion euros in development aid over the next seven years to help with the initial adjustment costs.

The EPAs have been the subject of a badly misinformed NGO campaign. But reformers in the ACP recognise these agreements for what they are: an attempt to capture some of the benefits of globalisation for these countries, while taking a pragmatic policy approach that shields people from potential costs.

Conclusion: Globalisation for progressives

The single greatest achievement of progressive politics in the twentieth century was to imagine and build a society in which the individual risks that market economies exposed people to could be managed through social welfare and health insurance.

The progressive challenge in the twenty first century is to do the same for globalisation. To preserve its huge collective economic benefits by making the costs bearable to those individuals who are directly affected by rapid economic change. It asks us to see our own economic future and sense of equity as bound up with that of billions of others we may never see.

For some on the left, the traditional medicine for the imbalances that open economies can bring has been to kill the patient. The real risk in the globalisation debate is that we move from the undeniable truth that globalisation could work better, to the false conclusion that we are better off without it.

Of course we are right to be concerned by safety standards for imported toys or meat, or to want to exercise some oversight when foreign governments invest in those few sectors of our economy that are genuinely strategically sensitive.

Of course we should be worried that financial markets are packaging and exporting debt whose risks are not clear. Of course we are right to object to unfair trade.

Of course we are right to look for ways to use our trade policy to help strengthen labour and environmental protection.

Above all, we are right to be concerned for those who 'lose' from economic change, or about the fact that returns to labour are currently being massively outstripped by returns to capital.

But weighed against the massive benefits of globalisation both for us and the developing world, these are not arguments against economic openness – they are arguments for managing openness effectively. That is the role for progressive politics.

That should be our central agenda on globalisation: dynamism and strength through economic openness; equity through politics. Through robust regulation where appropriate. Through a strong culture of worker protection rather than job protection. Through a strong European Union better able to represent the interests of Europeans on the global stage. Through a world trade deal now, while it is really needed and the conditions are close to right, before it risks falling apart following a prolonged period in the deep freeze.

Progressives don't have to strike a Faustian bargain with globalization, or defend it through clenched teeth. We should be building a politics that defends the gains that have already been made and urges activism to shape globalization to make it more equitable and sustainable in the future. I suspect that the one thing that today will demonstrate beyond any doubt is that this is a political challenge of the first order. But - and I firmly believe this - we're up for it.