



## Liberalism, Free Trade and Other Values

New York, 24 September 2015

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Isaiah Berlin Lecture, Liberal International

Ladies and gentlemen,

It's a great honour to speak to you this evening.

But I did have one small worry when I saw the invitation.

As a European Commissioner, I try to speak to Europe's citizens in their own language whenever I can. I do my best to be understood in Swedish, German, French, Spanish or English.

So when I saw that tonight's talk was named after a man described as "unintelligible in several languages"...

... I did think, "What exactly are my liberal colleagues trying to say here?"

But of course I'm delighted and honoured to give the Isaiah Berlin lecture.

Because his work is very relevant to what I want to talk about: international trade and investment.

Berlin consistently and brilliantly made the case for a pluralist, liberal approach to politics.

And he believed that that work was essential because he saw how abstract ideas could shape the real world:

As a child he was twice a refugee from ideology. In 1915, his family fled Riga for St. Petersburg, in the face of rising anti-Semitism. Five years later they fled again, this time from the new Soviet regime.

So he knew the power of ideas. One of his lessons for all politicians today is that clear, critical thinking is a duty for all of us.

Our job is to respond to the challenges our societies face. And those responses are determined by the ideas we hold.

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This is certainly true in Europe today with our migration crisis, as well as for international trade and investment.

It's an area where policy-makers certainly have challenges to address:

On the one hand we are at a peak of international economic integration:

- Trade flows of goods and services are equivalent to about a third of world output.
- Total global stocks of foreign direct investment amount roughly the same proportion.
- And hundreds of millions of people around the world have jobs thanks to trade. In the European Union more than 30 million people are employed thanks to our exports alone. If you add imports to that, you have several million more.

On the other hand the world is changing, creating two major new challenges that demand new responses from trade policy makers.

First, we must keep up with economic developments.

Over recent decades, trade has changed. It's not just about finished products any more. Trade and investment are part of the production process itself. And the most successful economies are those that connect to the global value chains that result from that. In this paradigm, the task of trade policy cannot be to maximise exports and minimise imports.

On top of this, the economic content of cross-border flows is changing. In the past, goods were far and away the most significant component. They are still vital today.

But services - from transport, to finance, to technical support - are increasingly important. The investments embodied in financial flows are also clearly crucial to the way countries interact with one another. The dramatic rise of the digital economy means that data flows also clearly need to be part of the equation. And we cannot forget that trade today also involves people moving across borders to provide services or support sales of goods. Are trade agreements adapted to this new reality? Not enough, I believe.

The second major challenge to trade policy is about legitimacy.

Despite the economic gains from trade, many people all over the world are concerned about it. In parts of Europe debates have grown particularly intense, but we are not alone.

These concerns are partly based on traditional protectionist fear of international competition. We do need to find better ways to support those who lose out from trade. But that cannot mean holding back benefits from society as a whole.

But today's debates also reflect some new realities.

Trade negotiations today involve a much broader range of issues than taxes on imports at the border.

We live in societies governed by complex regulation to protect things like the environment, public health or consumer safety. These policies are vital. But they do have an impact on trade flows.

So to be effective, today's trade deals must look at ways to make public policies like these more compatible with each other. That, however, creates a concern that standards may end up being lowered.

Beyond this, the global village means that we are all more aware of poor conditions for workers and the environmental footprint of exports. Consumers are rightly paying more attention to these issues. And they want to make sure that trade policy supports sustainable development and human rights, rather than representing a race to the bottom.

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Responding to these new challenges is not easy. We will need clear thinking as we do so.

Thankfully Isaiah Berlin can help.

His most significant political work, "Two Concepts of Liberty" includes a defence of the classical idea of negative liberty: the idea that people should be allowed to do what they want provided they don't interfere with the liberty of others.

His logic was that humans, in all our diversity, hold different values and different views. As a result, no single top-down solution to all human problems is possible.

The logic of economic liberalism - and free trade - is the same. No ideal central plan can satisfy all humanity's needs. Instead, individuals should be free to make as many economic decisions themselves as possible.

That includes decisions about whether to buy imports or home-produced products. As Adam Smith and David Ricardo saw clearly, if we have the freedom to trade we are all better off.

- We are better off because exporters have access to foreign markets. That means jobs in those companies.
- We are better off because consumers can choose between the best products in the world at the best prices.
- We are better off because companies can use imported components to become more efficient - meaning they can create more jobs at home over time.
- And we are better off because trade brings innovation. Trade products embody ideas, which have travelled along trade routes since the beginning of human history.

So our first response to the challenges facing trade policy today must be to continue to open markets and ensure that they remain open for the mutual benefit of people around the world.

But in doing so, we need to address the real trade barriers created in the new economy we live in.

That means facilitating flow of data while respecting the right to privacy...  
... making sure our trade deals support trade in services...  
... and addressing those challenging regulatory issues.

We also need to facilitate global value chains by making sure the hundreds of new free trade agreements that countries are negotiating are complementary, not contradictory. We want a network of trade superhighways, not a tangled web.

And we need to get serious about the World Trade Organisation, since rules agreed there are the best way to facilitate the most efficient international trade. That's why the European Union is at the centre of efforts to finalise the Doha Round of global trade talks by the end of this year.

We also need to move ahead with bilateral and regional free trade negotiations - and we need to get them right.

TTIP is our largest negotiation in terms commercial flows, since the EU and the US have the world's largest trade and investment relationship.

It's also the most serious attempt yet to use an international trade negotiation to deal with the new realities of economic integration I described above:

- Beyond removing tariffs, we are working on public procurement, services, and investment.
- We are writing rules that will help smaller firms take advantage of the deal and on issues like sustainable development.
- And we are addressing the challenge of regulatory cooperation without regulation more compatible without lowering any standards.

But I want to stress that TTIP is just one of our many, very ambitious bilateral trade agreements in the works:

- In the last two years alone, we concluded agreements with Canada, Singapore, Vietnam and Ecuador and development-focused partnerships with 27 countries in Africa.
- We are also negotiating a free trade deal with Japan and a major investment agreement with China.
- We are beginning to look at new agreements with other countries in the Asia Pacific region.
- And we are starting work to bring older agreements up to date - like with Mexico and Chile - and to conclude agreements with neighbours in the East and in the South.

All of these initiatives - and the similar ones that many countries are engaged in around the world - will help us use open markets to maximise humanity's economic potential.

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But we also need to think beyond economics.

Here again Isaiah Berlin can help. His main recommendation in "Two Concepts of Liberty" is that we need to recognise that humans will always hold different - equally valid - values. No one human value or goal can trump all the others.

Even freedom, he says, "must be weighed against the claims of many other values [like] equality, or justice, or happiness, or security or public order."

The purpose of freedom, in fact, is to allow us to balance all of these goals. So freedom itself cannot become the only goal that matters. Addressing the challenges that trade policy makers face today means looking beyond free trade, and taking this broader perspective.

Let me give you three examples.

First, we must be clear about the interaction between trade and other policies.

Critics of trade policy in Europe and elsewhere argue that by making a link between regulation and trade necessarily undermines our high standards.

They also argue that rules to protect foreign direct investment inherently limit government's freedom to make future policy choices.

In answering these criticisms trade policy makers need to make clear that while trade is important, we know it's not the only value that matters.

On regulatory issues in particular we need to be as transparent as possible to show that we have no intention of lowering standards. We need to explain what we are trying to do.

That's why the EU has published all our TTIP text proposals on these issues online. And why we may soon decide to extend that initiative more widely. TTIP is already the most transparent trade negotiation in history.

Transparency allows us to show that new economic opportunities don't have to be at the expense of high quality regulation.

The best example is in pharmaceuticals. EU and US rules on the right way to manufacture medicines are the same. But we have separate systems to check whether companies follow them. As a result teams of inspectors spend days flying across the Atlantic and checking up on factories for no extra safety. It's not lowering standards to get rid of waste like this.

When it comes to investment, we also need a pluralist solution. We want to encourage investment because of its economic benefits.

To do that we want to make a clear statement that investments will be protected from expropriation without compensation.

But we also have to be clear that no investment agreement should get in the way of governments' ability to make policy in the public interest.

At the heart of public concern is the mechanism that allows investors to take cases against governments when problems arise. That's why the EU has now taken the global lead in proposing to establish a new investment court system that mirrors domestic justice systems, with appointed judges without conflicts of interest. We are making it clear that democratic decisions must be in the hands of governments, not investors.

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Second, a broader perspective can help trade policy support the economic development of poorer countries - an idea very dear to us liberals.

Here on Vanderbilt Avenue in Manhattan their concerns may seem distant. But those of you here this week to adopt the new UN Sustainable Development Goals know that they are all too real.

Clearly, straightforward free trade has a role to play here:

One of the best things that developed economies can do is open their markets to imports from developing countries. The EU is in fact the world largest importer of products from the poorest countries in the world.

Opening markets to imports works for developing countries too. Cheaper imports benefit the poor the most. And the Asian economic miracles tell us that integrating into global value chains via open trade can deliver spectacular results.

But we need Berlin's broad perspective too. To take advantage of these opportunities, countries need the right infrastructure. They need roads, ports and railway connections. But they also need virtual infrastructure, like education, public health and strong legal systems.

Building that infrastructure is the work of domestic policy makers. But outsiders can support them. That's why Aid for Trade is a key component of the European Union's trade policy. To give you just one example, a European project is helping build proper storage facilities for Senegalese farmers to protect their produce on its way to export markets.

And by the way, we also need to think about these issues in developed countries. Our own education and labour market policies are not yet sufficiently attuned to the needs of people engaged in a global market. We need to support workers who have to transition to new industries because of global competition.

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The final example I want to raise is about how trade policy can support principles like human rights, labour rights and environmental protection. Trade cannot be the solution for these issues on its own. But it can be part of the solution. The EU's approach today is like this:

- In the most severe cases we reserve the right to impose trade embargoes or other political sanctions. We can also suspend trade agreements and the trade preferences we grant to developing countries.
- But more importantly, our free trade agreements include a range of commitments on these issues. For instance, both sides agree to respect the core labour conventions of the International Labour Organisation and the main international environmental agreements.

This approach is one of the most advanced in the world for integrating broader values into trade policy making. We also integrate NGOs and civil society in our negotiations.

But no one would argue that respect for human rights, labour rights and the environment is where it should be.

So I believe that we can do more:

For example, I hope that we can give more support for fair and ethical trade schemes... And that we can do more to promote responsible supply chain management by companies, and encourage corporate social responsibility.

We will be talking about these and other issues in a new trade strategy document to be presented in a few weeks' time.

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Ladies and gentlemen,

Berlin's analysis can help us move towards a new global trade policy based on:

- An ambitious programme to open markets that addresses today's economic barriers.
- Transparent trade negotiations to build trust.
- Clarity that economic integration doesn't mean lower standards.
- And concrete action to make sure trade policy supports values like human rights, labour rights and environmental protection.

Doing all of these things does involve focusing on more than one objective at a time.

But I believe that is possible.

Towards the end of his essay, Berlin quotes Kant: "Out of the crooked timber of humanity no straight thing was ever made."

It's a somewhat fatalistic perspective.

But Charles Kennedy, the former leader of the UK Liberal Democrats, who sadly passed away earlier this year, found a more positive way to look at it in his Berlin lecture in 2001.

He argued that Berlin's work pointed to a key strength of liberalism: its ability to accept conflicting values, but to move forward regardless.

And I agree: A liberal perspective helps us both to live in the real world, and to aspire to our ideals.

That's a viewpoint we need more of in today's challenging world.

Thank you very much for your attention.