Brussels Forum

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Plenary #6: Global Economic Shifts and Power Relationships

Announcement: Ladies and gentlemen in the lunch area, please proceed to the ballroom. We will begin the next session momentarily. Ladies and gentlemen in the lunch area and hallways, please proceed to the ballroom. We will begin the next session momentarily. Ladies and gentlemen, please take your seats. The program will begin momentarily. Ladies and gentlemen, please welcome Transatlantic Fellow at the German Marshall Fund, Mr. Andrew Small.

Mr. Andrew Small: Welcome back everyone after lunch. I'm Andrew Small in the Asia program at the German Marshall Fund. When GMF started convening Brussels Forum a decade ago, the Chinese economy was smaller than that of the UK. Chinese defense budget was smaller than that of Japan. The G8 had just formalized an outreach process to the five rising developing powers, China, India, Brazil, South Africa and Mexico. But their economies between them still added up to less than a third the size of the other countries that the United States would meet at the G8 summits.

As Brussels Forum launched, this was still a world in which the preponderance of economic power was wielded by the advanced industrial economies. This May when President Obama goes to the G7 meeting in Japan, the combined GDP of those five developing economies will be larger than that of the other G7 members that he'll meet there. The Chinese economy is now four times the size of the UK's. The Chinese defense budget is between three and four times the size of Japan's defense budget. FDI flowing from China to the EU now exceeds FDI flowing from the EU to China. Now China, of course is facing a slowdown from its long period of double digit economic growth.

But even if it drops to six percent, within three years, that would still be the equivalent of adding the entire size of the Italian economy to its GDP. Within five years, it would be the equivalent of adding the entire German economy to its GDP. So when we're talking about global economic shifts, we don't just need to project forward to 2025 or 2050. These are the dramatic changes that have already been taking place in the years since we've been convening here in this room. It was also 10 years ago founded its Asia program and across its lifetime through events that many of you have taken part in, the Stockholm-China Forum, the India Forum, the Tokyo Trilateral. GMF has been working on deepening relations with our most important partners in the region and exploring the implications of China's rise, including a new project on China's belt and road initiative, a subject that we discussed at the night owl last night.

But we've also been consistently coming back to the same basic question. Will the Transatlantic relationship and the liberal order that it helps to underpin hold together amid this profound shift in the balance of global economic power? A little over a decade ago when the program was started, we'd just faced a major Transatlantic rift over the EU proposal to lift its arms embargo on China.

Last year, we saw the first big China-related split since then over AIIB. Both times much of the world believed, fairly or otherwise, that the allure of the Chinese market and most recently the lure of Chinese investment played a decisive role in influencing European calculations and that Europe tended to see Asia almost exclusively through a commercial prism. Now I think that's an unfair caricature, but it's a perception that has stuck. And it's a perception that matters. And it matters more as China's relations with its neighbors deteriorate and as competition between China and the United States intensifies. And it reflects the fact that we still don't have a clear shared Transatlantic framework for adjusting to the power shifts that are underway.

Although everyone acknowledges their importance, Asia, China and the shifting balance of power is the single biggest overarching topic that most regularly gets crowded out of the meeting agendas between Transatlantic leaders. That's one of the biggest challenges the GMF will be working to address through its programming in the years to come. But fortunately, these issues have not been crowded off today's agenda despite the many crises that we're addressing.

So, I'm going to hand over now to Peter Spiegel from The Financial Times to chair the discussion with this eminent panel on global economic shifts, power relationships and a world beyond disorder. Thank you.

Mr. Peter Spiegel: Thank you very much, Andrew, for introducing me. I am Peter Spiegel, the Brussels Bureau Chief for The Financial Times and I want to thank the organizers once again for inviting me here to play moderator. It seems every time I'm asked to be a moderator, something horrendous happens the day before. The Cyprus bailout happened the day before my first time as a moderator and now we have terrorist shootouts in Molenbeek the day before this panel.

I'm going to structure this conversation slightly differently than perhaps Andrew set up, because one of the things that [audio skip 07:26:06:27] the last 12, 18 months is I think all these conversations about the rise of the rest have dominated. But what we've seen over the last 12 to 18 months, I think, raises a question about whether this is actually sustainable. If we look at, again, 18 months ago, two or three years ago, we all talked about the rise of the Brix, the G20 as the main global forum for economic policymaking. We all talked about the AIIB, the Asia infrastructure investment bank, was that going to be a rival to the World Bank. There was the Shanghai Cooperation Organization. Again, were these organizations elsewhere in the world that rivaled the old Breton Woods organizations, was this the new reality?

But what we've seen obviously over the last 12, 18 months, I think, raises some questions about whether there really is any credibility to that new architecture. Russia is obviously suffering both from sanctions, from the collapse of the oil price. We've seen in the last week what has happened in Brazil, China obviously still on the rise, but with the falling and turmoil in developing markets has also seen quite a bit of turmoil in its own economic house. We can list the litany that's happened in the last 12 months in terms of the emerging markets that I think has called into question [audio skip 07:27:22:16] because he was the one who gave me the idea for structuring the conversation around this.

I don't want to do too many introductions for our panelists. I think they're all in your guide and I think they're all quite well known to us. Jim obviously spent his entire career, most of his career, at the state department, right, deputy secretary of state and is now at Syracuse. Jim, let me just ask you to start with that and perhaps just [audio skip 07:27:49:08] this conversation around.

Mr. James Steinberg: Thanks, Peter, and it's great to be here. And, you know, I think that the challenge we all face is to try to understand the events of today in a broader context and some of the deeper trends. And we've all been through, in our lives, sort of the various narratives that have dominated us.

Many of us can recall, Ambassador will remember, that it was only a few decades ago in which the Japanese were going to be number one and it was going to take over the world. And we had a model that had failed and the Japanese had found it. And then, we had the narrative with BRICS. And as Andrew said, we have a narrative about the Chinese model and how that's going to be a new model that's going to dominate the global economy. And I think it's important to take that perspective back to realize that things have changed.

Globalization has changed the context over the last 50 years, but there are also some fundamentals that need to be looked at in terms of thinking about the long term structure of the global economy and where the sources of power are going to come. And if you have to look at the fundamentals, the fundamentals are demographics. The fundamentals are the investments that are being made. The fundamentals are the productivities of different economies.

And I think, from that perspective, it allows us to sort of escape some of the fads and look at some of the longer term trends. There's no doubt, as Andrew suggested, that China is a factor in a way that it wasn't during the Mao and early post-Mao era. The question is, should we straight-line project that or how should we think about the challenges that China takes? And how do we think about the evolution of the economy in--where countries are either making or not making the adaptations to remain economically strong over the future? And I think that kind of projection of the future helps us avoid taking recent events and magnifying them beyond what we see.

And I think, in that sense, we have to look at what the long term strengths are of the various national economies and then try to figure out what the architecture is that's going to correspond to that.

Mr. Peter Spiegel: Let me turn on that very subject to Pascal Lamy. Again, well known, I'm sure, to this crowd, but a brief introduction. I think Mr. Lamy has held every important job in this town, both as a commissioner and as a civil servant within the commission, and then went on to head the WTO. But Jim made this point about are countries doing the kind of adapting economically to deal with the new world. And in any of these narratives we talk about, there is one bit of the world that doesn't seem or is at least criticized for not making those adaptations. and seems to be [audio skip 07:30:22:04] global economic shifts.

Mr. Pascal Lamy: Well, I think that's a perfectly legitimate question. When you look at medium long term growth trends, we are slightly lower than we were two years ago, sort of 3.5 percent on a 10 year basis. But the balance within this 3.5 hasn’t changed. It's half in (inaudible) countries, half developed countries and it's roughly 5 percent for emerging countries, 2 percent for developed countries. And within this 2 percent, it's 2.5 percent plus. U.S., 1.5 minus Europe, and sort of 1 percent Japan, which is in the same basket you are.

So I think the starting point is clear. All things equal, Europe is in for 10 years of low growth. For similar reasons, demographics being one, before the migrant "crisis," which is I interpret as a potential formidable Canadian shock on the economy in Europe that needed a real Canadian shock, which is Germany. Adding 2 percent to your population will oblige you to spend dozens of billions, which [audio skip 07:32:22:18] With 1.5 percent gross, we cannot maintain what makes our identity, [audio skip 07:32:41:05] which I call the most civilization of globalization. And I'm trying not to be arrogant. But my own sense is that 1.5 percent will not allow us, long term, to maintain what we are and that's a serious problem if you--I mean, we all don't like where we are 100 percent, but what binds us is what we are, what we stand for.

So that means that Europe has to take a number of decisions. I agree that, for the moment, it looks pretty messy. I'm not on the side of those who believe that Grexit, Brexit, the migrant crisis, even Russia, will disintegrate Europe. So far each of these crisis has led in a bit more integration. Now, it's messy. It's slow. It's terribly badly communicated. These guys are absolutely dismally bad in communicating what they are doing, but they are doing it, you know, bit by bit. So I'm not on the pessimistic side and what I see is that, A, the big problems of the global economy today, which are--the big problems of local economy today is lack of demand, lack of consumption, lack of investment. Lack of investments and lack of consumptions because of too much debt and too many inequalities, which are the real breaks to more growth.

Now these two things cannot--will not be addressed collectively. And there's always fluff-fluff that we had a big world order that was binding people together and that now it's a mess. I don't buy that. I was a (inaudible) during 10 years of my life. I attended the G20 as a member of the G20 for five years of my life. I can tell you these things are not what people like you say they are. I understand that probably they are probably good at putting a narrative. More that or less inequality is not a topic for the G20, not for the World Bank, not for the IMF, not for the WCO. It's a topic for countries themselves.

Now, does this mean that there's no global issues? Of course, there are global issues. These global issues are now dealt with in a different way. Don't count on the traditional (inaudible) sovereign state base system to address global issues. Global issues are now addressed when they are addressed. Take climate, for instance, which is a huge global issue through new modes of international governors, which I call poly-lateralism as opposed to multilateralism. So don't seek for new progress in multilateralism for many, many reasons. But the good news, if you look at the way the SDGs were born, not here. If you look at the way COP21 succeeded, it succeed because some public institutions, and they didn't matter a lot, big business, multinational corporations, huge NGOs who, by the way, usually spend their time bashing multinational corporations, but they together can do formidable things. And the biggest experience I've gone through in this area is HIV8.

I'm not saying it's all like that. So in many ways, my conclusion is [audio skip 07:36:27:16] are, A, China--and we don't feel the same way about China. We don't have anything of that formidably aggressive U.S. hype against China, which ways is understandable given the possible geopolitical competition. And second, the fact that our middle classes are hit more and more violently by globalization, which gets more and more forceful, this (inaudible) sort of succession of shocks and we have this in common. And I think we'd better start thinking about this seriously. At least, this is what normal Europeans like me try and that's how we try and rationalize what we see in the U.S. electoral campaign. I'm now sure we can do that. We have to do that. We have to understand and I think that's what binds us and we better work this seriously for the future.

Mr. Peter Spiegel: Let me turn to Ambassador Ishii. Ambassador Ishii is the Japanese ambassador here in Brussels, both to Belgium and to NATO. Pascal Lamy says we've changed the way we see China. It's less of a threat. I wonder if that's the same view from Tokyo. I mean, what we've seen over the last, again, 18 months, maybe two years, where the U.S. and Japan have worked together on a TPP that excludes China, have both been the sort of only two countries that have resisted this Asia infrastructure investment Bank. Has the view of China changed?

And also, if I can ask you to address, (inaudible) Lamy mentioned his diagnosis of the global economy. Mentioned too much debt, low consumption. The tick-off he could have done was exactly what Prime Minister Albi is trying to address with questionable results. And if the theme of this panel is global economic shifts and power relationship, Japan is almost in the same boat as Europe. Seen as perhaps once mighty economic powers that perhaps have seen their better days and are they being eclipsed by other regions or other powers in the region? So a long list there. But I wonder if you could start with the China relationship.

Amb. Masafumi Ishii: Okay. (Inaudible) our relation with China has been more than 2,000 years. So absent now in the past five years, six years, doesn't matter. That's more or less the case. My second point is I'm once again the last minute addendum and there should have been somebody who is representing India. So I'll bring in India in the picture. Well, I'm a simple guy so the sort of context I see is happening is simply that China and India both are rising, which means 2.5 billion people belong to the countries rising. One-third of the world population is rising. So no wonder we have to adjust ourselves to that new situation. You have to adopt that.

What should we do? We should be able to take into consideration the spectacle of this rising power in adjusting or creating new rules or existing rules. I think that is a core and AIIB is, in that context, very important. You know, when I see the Chinese, actually in the past few decades, or the attitude of any rising power in the past few decades, I would say there are three different stages in relation to their attitudes towards the global rules. Right? First, obey, right? You have to obey. You have to take the existing rules, WTO. China made such an effort to be part of WTO. Then, after that, you sort of ignore, right? You ignored the existing rules. What is happening, I'm afraid, in South China Sea is more are still in that stage. Now, the third stage is you challenge. You challenge the existing rules, which is the area where AIIB exists. And I think we'll see more of that in the coming years. Challenge the existing rules.

The good news is, you know, I mean, competition of ideas is always a good thing. I mean, more ideas, more money for investment, that's great. [audio skip 07:40:43:25] ready to play a game of (inaudible) which is also very good news. But the bad point or the good bad news is that, you know, this is just the beginning. It will keep coming year after year. Are we up to that state--up to the challenge? Not really. I think that was a problem we're experiencing, facing with things like AIIB. We should have been able to identify the rules, which cannot be changed, which should be abided, but those rules which we may be able to change. Those rules which we cannot change are things like, you're not supposed to change status unilaterally by force. You know, the (inaudible). If you are bit, you are bitted by what you have bit.

So these are the things we have to keep untouched. But there are things we can change. So AIIB, I think we would have done a much better job.

Mr. Peter Spiegel: Before I turn to our last panelist, I have been ordered by the organizers to get the audience very involved in the conversation. So I'm going to do that right after this question here. I've also been told that there is the Young Professionals Summit attendees who are here and there apparently are iPads where you can type in your questions, if you don't want to ask you question with your hands up. But I'll be going to the audience shortly after this.

I wanted to introduce Karim El Aynaoui, who is managing director of the OCP Policy Center in Morocco.

I want to turn back to what Pascal Lamy said again, where perhaps we, in journalism, make too much of global instability, and that it has always been thus and it's not as bad as when he was a sherpa at the G7. The one area, obviously, in the last two or three years where this is not the case, I would argue, has been the Middle East. And, you know, having come to these Brussels forums with some regularity, you know, this was a region where there was much hope not too long ago. And now, it's perhaps the biggest source of global instability potentially.

Let me just ask you to address Pascal's claim that we are not in the worst of all possible worlds, that actually the troubles we face now, particularly economically, are not as bad as perhaps they have been in the past. And from where you sit, whether you agree with that and take from there.

Dr. Karim El Aynaoui: Thank you. First I wanted to thank Mr. Lamy because I feel relief that Morocco is not part of the G20 and after all, it's not that important. So thank you. But you know, narrative and stories are important and people move on visions and story and after all, on romance. The issue we have with all this terrorist movement is all about romance, by the way, and reaching to people's imaginations, et cetera. So let's [audio skip 07:43:44:13] in time of discontent and disruption and I think that's very important and I'll come back to your point.

I think there are two good news for Europe. But for the U.S. (inaudible) and for China, of course, because they understood that two good news. The first good news is the organizing, financing and making happen the energy transition at the global level. It's a fantastic source of growth. It has technology and innovation at its heart. And all this technology and innovation is mostly in advanced economy now and the question's really how to transfer it and to find a model to make this work, which is within reach. You mentioned the COP21. COP22 is taking place in Morocco and we are working hard on how to find the right mechanisms for this to happen in win-win partnership.

The second opportunity for the global economy and particularly for Europe, but also from the other side of the Atlantic for the U.S. is Africa. You mentioned China and India, but Africa is 1-point-something billion people, growing much faster than China, which is already aging by the way. So clearly growth is there. Let's pick it up. And this is basic needs. It's network infrastructure. Social housing, roads, you name it. We know how to do this. It's about moving people from--countries from low income level to middle income level or middle income level to high income level. And the growth strategies to do that are not that complex. The problem is that there's a perception gap. Everybody in Europe and elsewhere is busy with--I understand--huge political issues and other, you know, geopolitical competition, China, U.S., etcetera, but it is important that policy makers spend some of their political time thinking on how Africa can be a solution to the, you know, slow growth around the world.

China has understood it. They are coming up with some practical solutions. We had a very interesting seminar with one of the most famous think tank last week in Morocco. They are--they want to do things.

They're understand the constraints. They are worried about the environment. There is a lot of improvement in the way they want to contribute and they're acting. They are creating new institutions because the other ones are slow, as Mr. Lamy mentioned, to evolve. We need new institutions. There are fantastic institutions within the European Union which have been very successful in pulling out, you know, Spain, Portugal, to another level. And there's experience to that.

So I think this is, at the global level, sub-optimal, and we could do together much better. I understand that we shouldn't do it within the G20, and nor the G7, and the G8, I think, is over. So--and clearly, when you take natural resources, you take agriculture, you take the basic needs that I mentioned earlier on, this is a fantastic opportunity. And last, just to conclude, I think a lot of it has to do with perception gaps, with trust, with dialogue. And by the way, Morocco is part of Africa before being part of the Middle East and North Africa. It's on the African Continent.

You--the story goes for the Mediterranean region, I would say. If we are there, it is because, you know, there is lack of development, lack of hope and space was left open to others that appeal to different things. So fragmentations, space, lack of involvement from advanced economies from our partner, it's something that has dire consequences and that last for long. And so when we look, you know, from the South, from a middle income country, which is Morocco, which we feel that, you know, and it's not only about Morocco. Many others, which are quite predictable, in fact, they have been partners for many years. All of these countries, Europe, Japan, et cetera, we feel that there is a lack of commitment, engagement. There's a lack of, you know, we won't partner.

There is a demand for more Europe, for more U.S., for more Japan, for more China from this continent. And this demand is unsatisfied. We don't know to make this happen on the ground, but China [audio skip 07:48:48:10] to, you know, to answer you'll go to Europe, but, you know, we would have--we would love to have many of the French engineer working in Morocco. You know, we--they have, I think--and it's happening, by the way.

The last point, if I may, it's about leadership. And it's about the young leaders that are in this room. I think we lack in public policy, in general, the kind of innovative management leadership that are at, you know, the cutting edge stage in very advanced companies. The capacity of disruptive thinking, of changing bureaucracy to respond to current challenges. I think maybe it's the end. I don't know if you two share this view. But I think it's the end, maybe, of all style public policy. We need to find other ways of responding to very fast changing and evolving situations.

So in the security area, it's always about urgency, et cetera. When it comes to long-term goals, economic policies, et cetera, we have central banks that are doing their work, which is more or less what they used to do for many, many years. But in the other areas, in structural change, a company is the subject changes, there's a lack of, I would say, leadership or capacity to, you know, to adjust quickly.

Mr. Peter Spiegel: This is a perfect place to shift to the audience and ask for our young leaders to--because I see a question right here. Let's start right here. Do we have a microphone coming? Right behind you it is coming from. So, and please, just as per usual, state who you are, where you are from and if you have a question for a particular panelist.

Ms. Sabina-Maria Ciofu: My name is Sabina Ciofu for the European Parliament and I'm part of the Young Professional's Summit. I think the big elephant in the room is probably trade, which has been tackled a bit. And I would probably ask what are your feelings about TTIP, whether you think it will happen, to start with, and what will the impact be on the rest of the world because I think that's probably a question we don't very often ask.

And secondly, there is a discussion at the European level about our (inaudible) market economy stages to China, and, of course, there is big fear among European industries about that. But I would like to hear more of your thoughts on those two issues. Thank you.

Mr. Peter Spiegel: Pascal, could I ask you to start with that, since that is your area of expertise?

Mr. Pascal Lamy: Well, I don't think trade is the elephant in the room. Trade is there and it's doing well at times, which is not--which is why it's not an elephant on the room. Trade is doing pretty well. Of course, if you look at numbers and you see Mediterranean volumes the way we did it in the middle ages, which most of us still do it, you'll see that the relationship between growth and trade is changing because a huge multiplier to trade volumes, which the expansion of global supply chains triggered, is slowing down.

Okay. The issue of trade in value addition, which is what matters, and the numbers are now starting to appear, trade is doing well. Trade is more open today than it was yesterday, which is what matters at the end of the day for the people who believe that trade is good for welfare. Third obstacle to trade are changing. Roughly from (inaudible) the purpose of which was to partake producer like (inaudible) to obstacle that's staying from the intention to the intention to protect the consumer. Standards/norms and in this new world of trade obstacles, the issue is not getting rid of the measure, like a tariff to open trade. It's getting rid in the differences in the ways you establish and administer precaution, which is what the TTIP is about.

So the TTIP, the concept of the TTIP, is a totally new approach to trade opening. The main purpose of which is to tackle regulatory differences in the level and the administration and precaution between the U.N. and U.S. Now, that's what will happen. Not now. The guys that said on both sides at the time that this would be done with a tank of gas. We're either hitting, as we say in French, smoke the (inaudible), or they didn't know what they were talking about because it will take an awful lot of time. And yet, it's a great thing to do transatlantic because at the end of the day, it's something that has to do with what, you know, with what precaution is about, which is values.

And it's a good thing to do dinner speeches in the [audio skip 07:53:54:08] value. Not all. We totally agree on the (inaudible) energy, for instance, which is a huge structure in values, but it doesn't really matter for what we have to do together in this summit. We totally didn't agree on GMOs. We totally didn't agree on data privacy. But we can easily reemphasize the bumpers, which is what we should do. So, again, TTIP is a major endeavor. It was poorly launched. And I totally agree with Karim on that narrative matter and this narrative was terrible once more on both sides. And usually the Americans are better than we are at narrative because they have Hollywood and we don't.

So, you know, they can picture a U.S. President with a sort of--a leader saying ah, ha, ha. They are extremely good at that. We are not. But on this side, we are both--they both totally failed. And since the other term is now, we should--the E.U. Trade commissioner is now rowing against the tide to try and explain to the German public opinion that this is not about every German eating chlorinated poultry, which understandably worries German people. And if you want to understand why in Europe, apart from Austria, which has always been a bit of a specific case, why is Germany--why is German opinion anti-TTIP, it is very simple. Germany is not a protectionist country. It is a precautionist country.

So now that the view starts to prevail that this convergence in precaution will take place upwards because it cannot take place downwards for obvious political reasons, I think we're in for a safer, but very long-haul, navigation.

Dr. James Steinberg: Yeah--

Mr. Peter Spiegel: Jim, can I--yeah. I was going to ask you to jump in here because I want--talk to you--first of all, let me just point out that I ate--was raised on chlorinated chicken and beef with all sorts of hormones and I turned out okay. So, but I want to--if you talk a little bit about the intersection of trade and geopolitics, because frequently when I hear TTIP explained as, is as the rest rise, the Americans and Europeans better get together and set the rules of the road because we are about to get overwhelmed. And that's, to a certain extent, I think the justification for TPP, where the Japanese and the Americans want to set the rules against the Chinese [audio skip 07:56:35:27] market economic status for China, which has a lot of [audio skip 07:56:43:01] what I see as a geopolitical club, I think, at a time [audio skip 07:56:48:13] where steel is suffering in Italy, but can you try to meld those two, the trade and the geopolitical?

Dr. James Steinberg: Yeah. I mean, I agree with Pascal that [audio skip 07:56:59:05] a breakdown in any kind of consensus that trade agreements benefit enough--have brought enough class of people to justify the cost that they impose, that everybody sort of accepts the Ricardian argument that trade expanse overall aggregate wealth. But everybody seems to feel like they're the loser in those things and they are looking around and trying figure out, well, who actually won from these agreements? And as you can see, I mean, we have a presidential campaign in which none of the candidates support TPP and that tells you a lot. None of them, right?

So what has increasingly become clear is that without a fundamentally different approach to this that we don't have a constituency for these kinds of agreements, unless people feel that the welfare of work [audio skip 07:57:49:15] disagreements not on their economic benefits, but rather on their geopolitical benefits. And people aren't buying that either. That is to say that even though there is a strong sense of rivalry with China and the United States and the like, that people are not prepared to endorse agreements on the grounds that this will put pressure on China, or create, you know, a greater partnership with the United States and its traditional friends, either in Asia or in Europe.

So the geopolitical arguments for trades are failing at the same time that the economic arguments for trade agreements. Not for trade. I mean--and so I think this idea of stepping back and a pause and trying to deal with the fundamentals of the economy are going to be essential before we are going to see new agreements. I think that, you know, when Pascal talked about the inequality issue, this is so fundamental. That is, as people look at the future of work and the future of the economy in our--especially in advanced societies, without some conviction that this is going to benefit other than the one percent, the--we're going to see a backlash against the kind of predictable sets of policies that we've seen in the past.

And so I think this is where, you know, it is true that the international institutions aren't going to solve these. Economists are going to have to think about their own policies, investing in their people, in infrastructure and enhancing productivity in dealing with these fundamental sources of the changes of the distribution of income in our society as well as the aggregate income.

Mr. Peter Spiegel: Ambassador Ishii, could I ask you to take up Jim's point about public opinion turning against these trade deals? Is it--and particularly his justification of it as geopolitical? Is that something that Japan shares, you think?

Amb. Masafumi Ishii: Yeah. Let me pick up a few points. Number one, my message to TPP is that don't worry. It's not that bad. I think you need to remember that when we started negotiation of TPP, huge public opinion against it and it took us a long time for us to explain what it really is. It was these sentiments, most of them are based upon the false understanding of the content of the agreement itself, which is still the case with TTIP as well. Of course, there are the issues of the fundamental change of the, you know, distribution of wealth and (inaudible). That's a very important point.

But first, the more you explain, I think the easier for them to understand what [audio skip 08:00:14:19] what's in it, and that's exactly what happened when we started TPP. Another--the other thing I want to mention is that you know the--what is the basic objective of TPP? I mean, fundamental objective with TPP was--this is to open up Chinese market. I think when the United States came to us for the first time asking us to be part of a negotiation, the tip was that, you know, both of us have the best chance. If you [audio skip 08:00:46:17] so I think that my message is that TPP is not bring--sort of building wall against China. Quite contrary. Then, from now on, we will proceed and ask China to be part of it again and again. And once again, this brings me back to the rule-making metaphor. I think if it is still a baby, TPP is ours.

Mr. Peter Spiegel: We have a question here on this side of the room.

Unidentified Male: (Inaudible)I've been working for Council for European Union. I have a question which was provoked by introductory speech by Andrew Small, which is on shift in global powers. And when you look at--I think of it every year, additional income for China or changing (inaudible) in India or Africa, then you start to think, well, institutionally, we've got a reaction to it. I mean, was the institutions in which are managing global trends, we are prepared to cope with this shift in real powers in the world. So the question, obviously, I would be prompted to ask Pascal Lamy, with his experience of WTO.

But it's also a question of finance and IMF, World Bank and is that an element of this--on the kind of offspring is Chinese bank (inaudible) established? I mean, is an institution really prepared to cope with this new set up of global powers?

Mr. Peter Spiegel: Let me ask Pascal to answer that. But Karim, I want to come to you, also because you mentioned the role the EU could play in Africa, particular, and perhaps is not playing. But Pascal, let me have you answer that very quickly and then Karim, if I could.

Mr. Pascal Lamy: No, I mean, I 150 percent agree with Karim that Africa is our European problem, number one, for the future, in terms of opportunity and in terms of risk. That's something which I think needs to be said and there is a sort of U.S. dimension on this continent. EU has to pivot Africa the way U.S. pivoted Asia. That's not being done. It will have to come.

Now, on--I shouldn't spend too much time on trade, which I think, again, needs doing reasonably well and we should care about things which are not doing well. But WTO, as an institution, has gone extremely well as they got along. If you look at the mission statement of an institution like WTO, which is open trade, it has worked now. Trade opens for other reasons than trade agreements more and more, which mean that in the relative silent trade, the silent trade which stems from global value chains, important content or exports growing is larger and larger because firms localize more easily. And that's because of trade agreements. Okay.

Now--but still, there is an area where good disciplines are necessary and the multilateral option is good. Look at the trade (inaudible) agreement in WTO, which took place in Bali two years ago. Great thing to do. And that has worked better than the IMF stabilizing economies. There has been more economic and financial shocks since 50 years than there have been trade shocks.

In the Asian crisis, we all expected a trade shock. Didn't happen. In the '08 crisis, we expected a trade shock. Didn't happen. So again, that's--it's done, it's doing well, it will keep doing well. Don't worry about that.

Mr. Peter Spiegel: Karim, just on this point, are there--do we have the institutions or are the existing institutions [audio skip 08:05:05:22]

Dr. Karim El Aynaoui: --is--by the way, do you know what is the fastest economy in the world if you take, let's say, the last two years and project in the forecast for the next two year? Any guess?

Unidentified Male: I say Rwanda.

Dr. Karim El Aynaoui: No, but it's not far, yeah. It's Ethiopia. Yeah, it's Ethiopia. From a very low base, but it's Ethiopia. They've been going at 11 percent on average for the last 10 years and they're continuing to do so.

China has played an important role and that's an answer to your question about the World Bank and African Development Bank. And I spent eight years of my life at the World Bank. The question is size and scale, you know. You know, you take [audio skip 08:05:57:02] it's nothing. You take--countries in Africa will need billions and billions of infrastructure investment which is, of course, a high return given the demand, you know. There's such a huge amount of demand for infrastructure. You name it. Network infrastructure, housing, water, et cetera, [audio skip 08:06:23:04] sensitive to that because they live that. They know what it is. 30 years ago or 35 years ago, this generation that is now 50s, about to--around 40, 50 years old, they've known the China that has no basic infrastructure or poor infrastructure. They know the effect of infrastructure.

Remember, what bank pulled out of infrastructure not too long? When I was there, actually, end of the '90s, early 2000s. Agriculture, very timid on agriculture. Agriculture is over. Everybody's going to get food cheap. Poor quality, but cheap. Now, we are waking up, you know, maybe an issue, you know, as population growing.

So the question is, first, scale, flexibility and acceptance of the member of the, you know, the World Bank IMF bond to make space, to change, to adjust. That comes back to the, you know, the capacity of public policy, the organization of public policy to change, which is both a challenge for this group of institutions, but also a challenge for countries.

And it's not enough to say, okay, you do the right policies, you grow. No. These countries, they need investment. It's the story of the pioneer. It's you're rich, you know, you have gold under the ground, you're rich, of course, potentially rich. But you're poor because you don't even have something to dig and get the gold. So it's the same for infrastructure. How can I harvest this huge potential demand to accelerate growth and I need financing. But it's a profitable proposition and there is--sorry, there is excess saving at the global level, so let's work on the platform to recycle this savings, which the Chinese are doing.

Dr. James Steinberg: Right. But I think there's an important point here, which is, I agree, the scale is the issue. But I think what we're seeing is--and I agree with Karim, that the notion that the public sector institutions, even the international institutions are going to meet that scale are zero. The IMF is no longer anywhere at the scale to be able to manage financial crises, the bank is no longer at the scale to manage these things.

The question is, is the answer the equivalent of sovereign wealth funds, which is basically the way China is operating, or is the private sector? And I think that we're kind of now fascinated because China had this moment where it had vast, vast reserves. But if you actually look at the current situation in China and the incredible depletion of their reserves trying to deal with their own economy, I think the long-run solution to deal with the scale that Karim, I think, is exactly right in identifying, is to how do we mobilize the private sector to take advantage of these opportunities which he's identified because it seems to me that that intermediation has been the big failure. It's that somehow we haven't been able to mobilize the private sector to do it.

Dr. Karim El Aynaoui: So we have a solution, if you allow me. Sorry to hijack the discussion. We have a solution. In fact, the real value of IFC, World Bank, EIB, et cetera, is their capacity to guarantee. It's their capacity to bring trust to the private sector so governments will behave. It's not the power of the money that can--the money is in pension funds, it's in (inaudible) funds, it's in some of the central banks who are creating sovereign wealth funds on the side, et cetera.

So it's long-term finance that is available at the global level. How can we tweak a little bit the bank rather than doing project that gives you, you know, very complex to do? You guarantee your system a platform that is--everything is here and you have the (inaudible) you have a lot of young, African working at Wall Street, London, et cetera, that are here. They're doing some of it. We see them, you know. It's private equity, small stuff but they are here. They want to go back and work on their country.

Mr. Pascal Lamy: Walk away small, yeah.

Dr. Karim El Aynaoui: Yeah, sometimes big when you have someone like (inaudible), you know, because he understands. He (inaudible) to do telecom revolution. By the way, you know, if you take Africa financial sector, then they're way ahead of the--I don't know. It's this message of optimism that we're trying, you know, to bring here.

Mr. Peter Spiegel: Let me get back to the audience real quickly. Right here in the front row. Go ahead, please, sir.

Mr. Alfredo Valladão: I am Alfredo Valladão from Sciences Po in Paris. I wonder if the real global economic shift is not that we are heading to a two-speed globalization due to the digital economy and the speed of innovation. On one side, very low margin, mass production, transnational or national chains of production for mass consumption, and this for middle income or poor countries. On the other side, networked, service-enriched production for customized consumption in very important clusters in the U.S., in Europe and maybe some in Japan or Tel Aviv that gets a greater and even stronger [audio skip 08:11:46:03] to a kind of decoupling. Not the rest from the west, but the west from the rest in that new economy that's coming out.

Mr. Peter Spiegel: Split of rich and poor on a global level. Does anyone want to address that? Karim?

Dr. Karim El Aynaoui: Brilliant.

Mr. Pascal Lamy: I would agree that the new economy [audio skip 08:12:16:22] west and the rest. It's making big changes between the rich and the poor because there is a risk and a serious risk that the system creates a higher division, which is what we've seen for the last 10 or 20 years. Inequalities have been growing. And there are good reasons for that in the way global market capitalism work, in the way [audio skip 01:12:48:08] and what's going to be relevant to discuss ten years from now. And what I hear is incredible. I mean, the speed is incredible, but the social consequence of that, the impact of this on human communities is also much stronger than it used to be.

So that's, I think, the issue we have to do. And one of the reasons we might do as a sort of a bit of an economist, when I look at the reasons for not enough aggregate demand, there is part of that which is because of inequalities. And, you know, we've all known from the beginning that poor people spend more of their revenue than rich people. It's a well-known thing. That's one of the reasons why it's--and this, of course, creates tensions. And part of the world that is outside globalization and that's the world where this romance of terrorism--and I like the connection between the two words because it looks strange but it's a reality, that's where I think the problem stops.

Mr. Peter Spiegel: Let me--we're running out of time. I have two questioners with microphones. I have one right here and then one over here. Can I just take those two last questions and then we'll wrap things up?

Unidentified Male: Okay, thank you very much. A question--my name is (inaudible) a question to Pascal Lamy. How do you evaluate the recent step forward on TTIP? Are you positive? What's your feeling on that?

Mr. Peter Spiegel: And then, sir, right over here.

Unidentified Male: Yes. I must say, I'm a little frustrated to here, constantly, the statement I--referring to the west, I suppose, including Japan, what are we going to do when the west is rising? I mean, that's a very GMF language. I understand. I love GMF. But if you put it in a different setting, different conference, or in Asia, somewhere else, they will think it's odd language. That's totally wrong concept. Who is on the rise, who is in decline? Chinese never use the word rise. That's your invention. They say restoration. Don't forget, we've been there before, we've seen that before. Are you talking about why China want to modify [audio skip 08:15:24:28] those days. China invented the gold standard. If you want to go back to gold standard, China will be happy to come along. We invented the 17th century.

Mr. Peter Spiegel: (Inaudible) question there--can I--is there a question there or--

Unidentified Male: My [audio skip 08:15:42:07] seem to be heading in serious trouble. I totally go with Pascal Lamy, that U.S. is hyper on this issue. But Steinberg is the only one, in my view, raised a possible way of stabilize that relationship, which was not taken by the White House. Now, Chinese criticized that at the time. I, myself, as a leading writer--I'm running think tank in Shanghai by the way. I was a leading writer supporting Steinberg at the time, but most Chinese against it. But now we're all missing a strategic (inaudible). We just want to see what do you think now?

Mr. Peter Spiegel: Jim, why don't you start with that and we'll use that as a wrap up?

Dr. Karim El Aynaoui: Sir, I have one question. Should we be worried--sorry. Should we--Africa's not part of, again, G20, et cetera. I mean, some countries are, but we're not part of TTIP.

Mr. Pascal Lamy: Don't worry.

Dr. Karim El Aynaoui: Yeah, exactly. It could be worse.

Mr. Pascal Lamy: Don't worry. Don't worry.

Dr. Karim El Aynaoui: But it'll keep them busy, Pascal.

Mr. Pascal Lamy: No, no.

Dr. Karim El Aynaoui: And if they're busy with TPP and TTIP, they don’t care about Africa.

Mr. Pascal Lamy: I don’t know. I know that and I spent a little bit of my time with a number of those people. The people who believe TTIP is a forum are people within Europe who fear this will lead to dumping the cherished precaution level. And it's the same in the U.S., by the way. And we've got good examples with (inaudible) this narrative that the EU is hyper precaution and the U.S. is under precaution, it's total crap. Sorry.

So and in the rest of the world, the people who worry about TTIP are worried because they think it's like TPP. But it's not like a TPP. Morocco, when it exports phosphates to the EU, has to match the EU standard for quality phosphates. When Morocco exports phosphates to the U.S., it has to match the U.S. standard for quality phosphates.

It happened that the EU standard and the U.S. standard are different, which is a cost to an efficient Moroccan phosphate producer. The moment EU and U.S. will agree on a single phosphate standard is good news for Morocco. And the only question is whether they will do that for phosphates. I don't see a huge field of (inaudible) political thing that would prevent that. You never know. But so--

Dr. Karim El Aynaoui: It's better to be (inaudible).

Mr. Pascal Lamy: --80 percent of the cases--in 80 percent of the cases, the U.S. and EU will do that on [audio skip 08:18:31] political thing that would prevent that, but you never know. But so--

Dr. Karim El Aynaoui: It's better (inaudible).

Mr. Pascal Lamy: --80 percent of the cases--in 80 percent of the cases, the U.S. and EU will do that on a 20-year schedule. So, TPP is moving in the right direction much more slowly than what politicians who like hype had said. The first step will probably take place two, three years from now with the next U.S. president and at the end of the present EU commission. It will be a first step and it will be followed by a regulatory convergence process that will take a lot of time and the political and institutional component in the accountable way.

And it has to be much more politically accountable than Paris because it matters for a much larger part of the population.

Mr. Peter Spiegel: Jim, let me ask you this--

Dr. James Steinberg: Yeah.

Mr. Peter Spiegel: --because frankly, this is--I didn't plan this, but it's a great closing question, which is are we thinking about this all wrong?

Dr. James Steinberg: It is a great question. Right. And I want to relate--it's a great question. Thank you for--and I want to relate it to our discussion about economics, because if you think about it, China's economic growth over the last 30 years has not only been an extraordinary benefit to the Chinese people. Unprecedented in history, the number of people who've raised out of poverty. But it's been a global public good, right. We've all benefitted and it has been the essence of American public policy really since Nixon, which had some [audio skip 08:20:06:02] right? And what has happened, and it's only happened in the last really since the 2008/2009 crisis, is for the first time, rather than seeing China's economic growth as a global benefit not just for China [audio skip 08:20:29:12] to the point where we actually--our politics turned and we don't want China to succeed economically [audio skip 08:20:50:25] we get back to the days when we thought China's economic growth was good for us, as well as good for China.

We need to find ways to have that dialogue that we see this as a win/win, rather than a win/lose. But now, it's oh, China's going to overtake us. That's dangerous. That's going to be threatening. They're going to use their economy to, you know, threaten their neighbors, and--that's what reassurance is about, is to get back to the days where we see each other's success as mutually beneficial.

Mr. Peter Spiegel: Let me ask the rest of the panel to sort of address that, and also address the issue with the original questioner said, which is, are we missing the issue, and is the great next question how these two poles, the Americans and the Chinese, prevent hurting themselves and by definition, the rest of the global economy. And Karim, let me ask if you'd address that, and if you have any other closing thoughts as we--as you wrap this up.

Dr. Karim El Aynaoui: I think it's good news to have competing powers when you're medium to small country. You know, you all play cards. And I think good news also is that China is now pushing a transformation of the division, the international division of production, light manufacturing. Its cost has increased. They have a lot of excess capacity. And that's because there is going to be a beneficial of that. Part of the Ethiopian growth story I mentioned is largely or so is due to that.

And it's, you know, and the question is how can we together, because maybe it's another opportunity for advanced economies to insert themselves in the changing global value chain through regulatory [audio skip 08:22:40:09] being greener, which is--can be a fantastic source of growth. You know, harnessing the energy transition and the technology that is around. And we would like to share [audio skip 08:23:04:29] of farms that are pilot farms [audio skip 08:23:10:15] it is around the world do a bilateral [audio skip 08:23:17:27]. But it doesn't trickle. You know, it stays at the pilot. There are [audio skip 08:23:31:28] countries. And the [audio skip 08:23:48:25] the development of [audio skip 08:23:52:05].

The question is to [audio skip 08:23:56:00] with 54 countries [audio skip 08:24:02:29] which are in the end [audio skip 08:24:08:23] not in the [audio skip 08:24:11:12] sizes and powers. Not very threatening for most [audio skip 08:24:17:17].

Mr. Peter Steinberg: --is Jim right? Do we have to change our thinking and [audio skip 08:24:28:02]

Amb. Masafumi Ishii: --show existence is the only way for us. So, [audio skip 08:24:41:08] adjusted, it's adjusted. But [audio skip 08:24:52:17] I think [audio skip 08:24:57:15] change and [audio skip 08:25:03:21] in that [audio skip 08:25:07:04] states, Europe [audio skip 08:25:11:15] adjusted, it's adjusted. But I think [audio skip 08:25:22:00] change and in that United States, Europe, [audio skip 08:25:26:04].

So I think U.S., Japan, all (inaudible) change. And in that, United States, Europe, and [audio skip 08:25:34:25]. So I think, U.S., Japan, [audio skip 08:25:38:13] last point. Believe [audio skip 08:25:59:02] for many reasons, right. The UN, the GDP of China, which is the same as [audio skip 08:26:02:25]

Mr. Peter Spiegel: --struck me as an American living in [audio skip 08:26:35:20] like event, talking about [audio skip 08:26:38:20] Brussels and that is almost not discussed at [audio skip 08:26:40:08] desperate to get the Europeans engaged [audio skip 08:26:42:13]. And yet, in the ensuing years, I've seen [audio skip 08:26:49:29] address that issue in particular and [audio skip 08:26:59:02].

Mr. Pascal Lamy: The U.S./China relationship [audio skip 08:27:04:27] because it can be [audio skip 08:27:09:26] China and Washington and not here [audio skip 08:27:20:02] is obsessed with China. It's big in the U.S. [audio skip 08:27:20:29] in the U.S. than it is in Europe in terms of [audio skip 08:27:34:01].

So it's very risky [audio skip 08:27:44:21] it can be inflamed by passion on both [audio skip 08:27:50:08] part in China is done by people who [audio skip 08:27:53:17].

So for us Europeans, [audio skip 08:28:01:09] we cannot [audio skip 08:28:04:10] in term [audio skip 08:28:12:26] mostly about military [audio skip 08:28:18:07] for obvious [audio skip 08:28:21:10] I'm [audio skip 08:28:25:22] sort of mostly about military for obvious [audio skip 08:28:44:22] I'm [audio skip 08:28:47:04]

Unidentified Male: --what's interesting about that is that (inaudible) most of those people are actually in the developing world, which is, again, a big difference in (inaudible).

(crosstalk)

Unidentified Male: But it's also kind of interesting when you said it's basically going to be a very small [audio skip 08:29:15:28] what's interesting about that is that (inaudible) most of those people are actually in the developing world, which is again, a big difference in size--

(crosstalk)

Unidentified Male: But it's also kind of interesting when you said that it's basically going to be a very number of groups, it's nine groups that are going to drive close to three-quarters of global consumption. And they look different than the kind of people who have driven consumption in the past.

(crosstalk).

Unidentified Male: --going through a big shift towards a more digital economy. We all know how technology has changed our lives. We all use it, the devices, and the interesting this is that everybody now has access, pretty much access to (inaudible). And that's both true for both developing and developed (inaudible) probably with an exception of about (inaudible). What's interesting, though, is that the race of digitization are quite (inaudible). This is a critical--