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IS GLOBALIZATION IN NEED OF GLOBAL GOVERNANCE?

TENTH ANNUAL RAYMOND ARON LECTURE  
FEATURING PASCAL LAMY AND ROBERT ZOELLICK

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**PARTICIPANTS:**

**Introduction:**

TED PICCONE  
Acting Vice President and Director of Foreign Policy  
The Brookings Institution

**Moderator:**

JEREMY SHAPIRO  
Visiting Fellow  
The Brookings Institution

**Featured Speaker:**

PASCAL LAMY  
Honorary President, Notre Europe-Jacques Delors Institute  
Former Director-General, World Trade Organization

**Discussant:**

ROBERT ZOELLICK  
Peterson Institute for International Economics  
Belfer Center for Science and International Affairs, Harvard  
University

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## PROCEEDINGS

MR. PICCONE: Good evening, everyone, and welcome to Brookings. My name is Ted Piccone. I'm the acting director and vice president of the Foreign Policy program, and on behalf of all of my colleagues, I'm delighted to welcome you all to the Tenth Annual Raymond Aron lecture. This year's topic: Is Globalization in Need of Global Governance? Tonight's event is exceptional, not only for its commemoration of the ten year anniversary of the lecture series, but also, for its eminent speakers. It is a distinct honor to have with us at this podium two outstanding scholars and statesmen, Pascal Lamy, who will give the address, and Robert Zoellick, who will offer comments in response.

When the Raymond Aron lecture was conceived a decade ago, we sought to create a new forum for thoughtful discussion that bridged both sides of the Atlantic, and also spanned the sometimes even larger gulf between policy and scholarship; a lecture series that strives to embody the ideals of Mr. Aron, whose philosophical brilliance always maintained an allegiance to realism. A good policy, Aron observed, is measured by its effectiveness, not its virtue.

Aron was an intellectual giant of considerable breadth, a political philosopher, sociologist, journalist, scholar, and political actor who

wrote more than 30 books on a broad range of topics. And the speakers that we've hosted over the years have likewise been notable for their big ideas and political influence, including Tony Judt, Joss Andriani, Steven Briar, Sandra Day O'Connor, Jean Pisani-Ferry, Olivier Roy, Thomas Friedman and Teresto Peck, among others. So, it's a privilege for us to host this lecture series in honor of Raymond Aron, and to be able to add two more notable names to that impressive list, Pascal Lamy and Robert Zoellick.

You have before you their full bios, so I won't go into detail. It's a long list of accomplishments. As you know, Pascal Lamy recently completed two consecutive terms as director-general of the World Trade Organization, and previously served as commissioner for trade at the European Commission.

Bob Zoellick was the president of the World Bank Group from 2007 to 2012, and also served as deputy secretary of state and as the U.S. trade representative. Both have had long and distinguished careers in public service to their nations, and indeed, to the world.

As you may have noticed, Fiona Hill, who directs our center on U.S. and Europe is not here with us this evening. She has, unfortunately come down under the weather and is following the good advice of her doctors to stay home. Our visiting fellow, Jeremy Shapiro,

has kindly stepped in to take her place as moderator for a discussion among our guests.

Before turning the podium over to our speakers, I would like to thank all of those who have contributed to make this event and the ten years of the series an enduring success. We're indebted to the Embassy of France for their tremendous collaboration and support over the years, and I want to particularly recognize Ambassador Delattre, who is here with us today, and his staff. I also want to thank the Ministry of Foreign Affairs of France, especially the policy planning team led by our own Brookings alumnus, Justin Vase.

Again, many thanks for joining us tonight as we grapple with the big questions of globalization and governance. Monsieur Lamy, the floor is yours.

(Applause)

MR. LAMY: Well, thank you for this introduction, and I'm, of course, honored by your invitation. When I looked at the list of previous speakers, I realized they were either prestigious scholars or statesmen. Well, this time, you've chosen a hybrid with both wings and legs. Or, to be more accurate, two hybrids, Bob Zoellick and myself, with wings that sometimes allow some altitude for reflection, thinking, theory; with legs to walk on the muddy ground of realities and get, sometimes, a few things

done, which is what matters at the end of the day.

In my case, I grew both of these organs as I was privileged to devote, for the last 40 years, the largest part of my professional activities to public service, at first in my native country, second in my native continent, and third, in my native planet. And I've lived through what I usually call the three states of mass of governance: the solid; national, the liquid; European, the gaseous international.

And moving from one to another was always a big shock. Brand new territory provoking refractions and interrogations on how these different systems of governance can work together. Hence, this evening's topic, "Is Globalization in Need of Global Governance." And I will try and articulate my answer in three steps. After all, I'm French, and this is sponsored by the French Foreign Ministry, so let's be clearly Cartesian.

First, why I believe globalization is in need of some global governance. Second, why I believe we have a global governance deficit. And third will be about some suggestions to try and fill this gap.

Now, to start with, why do we need global governance? We all know globalization is a great transformation presently at work in our world. Paul Valery had this intuition when he wrote in 1900 "Le Temps Du Monde Fini Commence." Not that such a transformation was unprecedented. Human history witnessed other periods where jumps in

the technology of transport of goods, people, information triggered an acceleration of international exchange leading to major economic, social, cultural, political upheavals.

But, never with a magnitude, and maybe, more importantly, with a force and a speed comparable with what we've witnessed during the last decades, the result being a level of inter-connectedness, inter-dependence, many implications of which remain to be explored. Technology, whether the invention of the container or the more sophisticated IT systems, is crushing the cost of distance, hence, providing market capitalism with a formidable expansion opportunity and reshaping rapidly the geographical distribution of production of goods and services, the well known global value chains.

But like Janus, the old Roman god, globalization has two faces; the smiling one and the grimacing one. The smiling one belongs to Ricardo. The grimacing one belongs to Shumpeta. Ricardo explained why international exchange is efficiency creating, thus leading to growth, thus leading to lift the boat and to reduce poverty.

Shumpeta explained how competitive shocks are innovation boosters, disrupt economic and social systems and propel inequality between the winners and the losers. Forceful globalization, immense opportunities, huge potential for economic and social benefits,

commensurate risks of instability, contagion, stress on humans and nature, hence a governance challenge.

How can we reap the benefits of globalization while minimizing its costs? Given the predominant role of market forces as the engine of globalization, how can we address classical issues of elite capture, insider rents, benefit sharing, welfare creation, which traditional governance systems have had to cope with since the 19<sup>th</sup> century industrial revolution?

How can we harness globalization, an expression I used for the first time in 1999 during my hearings as EU Commissioner designate before the European Parliament. Is there a way to respond to a feeling among many that the global market is moving on its own without political control, thus eroding democracy as a means for citizens to express choice among different political alternatives? Or, do we have to live with a powerlessness syndrome, plus a unique one-way thinking?

Many of the answers to these questions do not pertain to global governance. They lie in a classical domestic political system. After all, all countries swim in the same global sea. Some are doing well and others not. Economic science, as well as experience in development, tells us that what makes a difference in the performance of economic and social systems is deeply rooted in local conditions, institutions, behaviors,

beliefs.

This is obvious in matters like education, skills building, redistribution, social security systems who play a major role in spreading or preventing the welfare effects of globalization. That is true, also, for the quality of regulatory and legal systems. But what I think remains true, if we accept to look at facts and figures, is that globalization has not only hugely decreased poverty, it has also hugely increased inequalities.

Volatility is higher. Contagion is easier. Our natural environment is being harmed. Part of these challenges are clearly not local, but global, as evidenced by the financial, then economic, then social crisis which started here in the U.S. in '07 and contaminated many of the people of this planet.

Reducing carbon emissions or ocean depletion or currency volatility or protectionism or cyber warfare or tax evasions cannot be addressed within frontiers. So, some form of global governance is needed. Do we have a global governance system able to cope with these challenges? I think no is the correct answer.

A rapid survey of recent academic literature on this topic, whether "Gridlock" by David Hell, "Divided Nations" by Ian Goldin, "The Great Convergence," by Kishore Mahbubani leads to a disheartening diagnosis; a global governance deficit. Not that we do not have an



international system. We have one, but its construction, difficult as it has been, has dramatically slowed since more than a decade.

Building an international system of governance has never and will never be easy, because of intrinsic structural handicaps of global governance as compared to other forms of governance, be they political within nation states or corporate in business or non-profit in civil society. These systems can provide simultaneously what we expect governance to deliver; leadership, legitimacy, efficiency, coherence for policy and even more for political purposes, the nation state matrix retains an indisputable comparative advantage.

It is based on a sense of togetherness, of belonging to a community, of an affection societatis linked to proximity, and this is lacking globally. And this is why the international systems remain inter-national, between nations and not global. Cooperation. And whatever treaties, codes, deals, institutions, programs, that are the brick and mortar of the system are dependent on the willingness of sovereigns. By definition, they can opt in and out, and they have the monopoly of international representation.

The tripartite organization like the ILO, where the international -- between states, the dimension was articulated with other dimensions, between industry, between labor leading to between states,

between industry, between labor interaction. It is the exception.

Compulsory distributed settlements such as the WTO, where the losing party to a dispute must comply has no equivalent.

By the way, these two organizations I just mentioned have the same membership. The members of the WTO have agreed that WTO should be an observer to the ILO, but the same members, while members of the ILO, have not agreed that ILO should be an observer in WTO. So, good luck for coherence.

Now, this is why the present system of international that was built, starting 150 years ago with the International Telegraph Union, and the last episode of which was the creation of the International Criminal Court in '98, has been so arduous and painful. Escaping the attraction of the (inaudible) necessitates a very powerful political energy. Only the horrors of major catastrophes for humanity, such as two devastating world wars or genocide, have so far been able to generate such a quantum of energy.

When the pressure of individual and collective culpability recedes, where some sort of disciplines appear to prevail, just wait for the next apocalypse. And this is also why the present system remains more inter/national between nations than global, meaning that states retain the monopoly of entering or not, into obligations that will bind them. Strange,

in many ways, at a time where some multi—nationals or some global NGOs have become more powerful and more influential than many of the nearly 200 nation states.

They have served on the wave of globalization. They are global actors, and by the way, they advertise themselves as global actors. It is also the Westphalian nature of the present global governance system which explains why its progress has slowed very dramatically since the mid '80s. A paradox, in many ways.

Western generated globalization has allowed the emergence of new actors of the emerging countries leading to the stabilization of the previous -- the Westphalian western made power balance, but without this stage providing for a new, sovereignty based new balance.

Are emerging countries rich countries with many poor or poor countries with many rich? Depending on how you answer this question, the level of rights and obligations in the present international order may vary significantly. Negotiations on a new multi-lateral regime in WTO or on carbon emission sharings have stalled for the last ten years because of our incapacity or unwillingness to answer this question.

Developed countries refuse, wrongly, in my view, to recognize that development takes time and developing countries refuse, also wrongly, in my view, to acknowledge that as they develop, the level

playing field -- the playing field has to be leveled in the future.

So, the present global governance deficit is both permanent and provisional. Permanent, in that relating or cloning a national governance at the global level is a distant dream in the absence of critical mass of global citizenship. Provisional or transitional in that the process of rebalancing geo-politics as a consequence of the rebalancing of geo-economics generated by globalization is still underway for some time to come.

Now, in these difficult circumstances, I, nevertheless, believe that some avenues are available to try and bridge this deficit. Let me briefly outline several families of possible ways forward which, if combined, could offer some tracks for progress in the future.

Before I do this, let me sideline one track advocated by some, mostly, if not only, in my own country. I mean the track of "deliberalization," which I have dubbed to be reactionary. Impractical, in my view, because I am enough of a Marxist to believe that technology, a major infrastructure of liberalization, does not move backwards, and is not desirable either, because I'm enough of a Social Democrat to acknowledge that poverty, malnutrition, and powerlessness are receding overall, although they are only one part of the injustices I care about.

Globalization may move at a less tepid pace in the next

years, not least because of the impact of the financial deleveraging. But I do not think it will simply stop or even move back. So, we still are confronted with the task of punishing it.

One family -- how to do it, I would call post-Westphalian, moving away from the Westphalian gravity, building a new political space and entrusting it with the capacity to deliver the outcome expected from governance. That's the European option. The only one of this kind on this planet, a super national legal system, a super national set of institutions with checks and balances, a federation of nation states, as Jacques Delors called it; a quasi-government, the commission; a quasi-Senate, the council; a quasi-House of Representatives, the parliament; a quasi—Supreme Court in Luxembourg, a system of devolution where decisions imply obligations for citizens, for countries can be taken and enforced without re-coursing to the classical instruments of international treaties, but for constitutional amendments.

Does it work? The jury is still out. In many ways, it led to remarkable achievements in policy aggregation. A single country, a single market, a common trade policy, a common competition policy. But it hasn't succeeded so far in political aggregation.

For most European citizens, the super position of a local, regional, national, European governance is not yet recognized as a

continuum of proper power evolution. Participation in the European exchange is low and declining over time. The distance between citizens in Brussels or Strasbourg still reveals a democratic deficit, or, to be more precise, the perception of a democratic deficit, and the root of this deficit does not lie, in my view, in proper institutional arrangements. It lies in a lower sense of belonging to a community of sharing; a common narrative about what Europe stands for as an identity in civilization.

And it is the climax of violence during the 20<sup>th</sup> century on this continent which explains the political energy which the founding fathers, the Trumans, (inaudible) and others succeeded to mobilize. But the shelf value of peace understood as normal was between us, has become obsolete in the minds and, more importantly, in the hearts of today's generations.

Erosion, which is how I would qualify the present crisis of European integration, still has to be overcome. And to get there will imply filling the gap between the level of economic integration and the level of political integration between citizens and institutions, and also, the gap in economic dynamism between Europe and the rest of the world.

I believe this will happen, at the end of the day, even if that day is not tomorrow, but I also think that European integration will remain specific. A laboratory for super national governance where major

innovations are brewing, but whose discoveries will not be used as such, as well.

Another family of how to try and move forward, I would call neo-Westphalian. No fundamental questioning of the sovereignty of nation states, but new pragmatic arrangements that progressively tie these molecules more together in forms for a G20-like; for sure an improvement over the G8 format to try and provide more leadership, more coherence.

The UN system, to provide more legitimacy, specialized organizations to provide more efficiency, a better articulation between the three poles of G20 UN specialized organizations of this triangle, more transparency, improved monitoring, rankings that allow name and shame, thus, leveraging national pride as a tool for governance, (inaudible) with the Westphalian system, some sort of global accountability of countries through initiatives like the MDGs, which I believe, have been successful innovations in the global governance, region integration, mini global governance, as we see it in Asia, in sub-continental Africa, in Central America, slowly moving out of a consensus towards various models of more or less qualified majority voting for decision making, for treaty adoption or in technical organizations, more right of initiative for leaders of international organizations to table proposals, as has been recently

suggested for the WTO, inserting a sunset clause in international organization statutes, as we recently proposed it by the Oxford Martin School Commission, which I had the privilege to chair in order to clean the deck and renew mandates, relevance, resources commitments from time to time.

Many ingredients are, in fact, available for step by step (inaudible), but regular progress is then available. The key, of course, remains to gather the necessary political energy to use these pragmatic suggestions among sovereigns.

And finally, another family of possible solutions, which I would call a Westphalian, and this family, utilized in more innovative, more creative governance systems. The two previous families were about sort of globalizing local problems through a traditional command and control top down model respecting the primacy of the nation state over other players and stakeholders of globalization.

This third family of options is about localizing global problems, not globalizing local problems. More bottom up. Thus, addressing the legitimacy deficit of the (inaudible) which is linked to distance, and moving to a more networked, decentralized way of generating convergence, cooperation, collaboration.

I had personally such an experience when I was WTO D-G



with the launch of the Made in the World Initiative which led to a transformational change in measuring international trade in value addition instead of gross volumes. No need for a governance super structure.

The global Internet of statisticians, a spontaneous mobilization of good will, individual initiatives bypassing hierarchies' orders, authorizations, tacit and informal understandings between WTO, the OECD, some research centers, some academics, all this together achieved in three years only, what would have taken probably 20 years with classical Westphalian negotiations and trade-offs.

Cross—cutting coalitions, innovative partnerships between civil society, business, cities, have proved to be effective in the case of the fight against HIV/AIDS, or the Y2K challenge. In the report of the Oxford Martin School, I already mentioned, we proposed to address climate change with an innovative C20, C30, C40 coalition, 20 countries, 30 multi—nationals, 40 cities where a convergence of interests could leverage change more efficiently than in the classical UN forum.

IT-based social networks could, in some way, replace the old diplomatic infrastructures of the classical international system, democracy, as a substitute to (inaudible) to harness civilization.

I will now conclude by mentioning what I see as the biggest challenge ahead of us for global governance. Values. Whatever tracks

are used to address the present flaws in global governance, what divides nations are not just interests. The world of mass or hopes, but also, values the world's Venus or Kant.

And for a long time in human history, these value systems, different scales between what's good and what's bad, what we call in economics, collective preferences remain clustered. These times are gone. One of the most striking examples of this evolution lies in international trade regulations, where obstacles to trade are morphing from objective measures to protect the producer from more competition, to more subjective measures to protect the consumer from risks, or to use the WTO legal language, which I had to learn, to protect "public morals."

Now, what are global public morals? All governance systems rely on a bedrock of aggregated collective preferences. We are all for more freedom, for more security, for less injustice, for a better environment, but the coefficients we attribute to each of these different variables leads to a system of different individual equations which the democratic process has shown to be the best at solving. Democracy as the proper way to aggregate these collective -- these individual preferences into collective preferences, and of course, transposing this trust, creating social contract making at the global level is, in my view, as necessary now as difficult.

I think we need a sense of common purpose to accept governance. The western philosophy has provided this essential software for a long time. It now has to be juxtaposed with other ways of thinking, with other mental traditions which also operate in globalization acknowledging these differences, discussing them with a view to reach more convergence would probably be the most useful step to take in order to move forward. And I sometimes dream that the G20 or the UN invest into this common bedrock for a globalized system which would be able to manage economic, social, political integration more in sync, a necessity, in my view, to make our world a better place for future generations. Thank you for your attention.

(Applause)

MR. ZOELLICK: Well, I think want to thank Brookings and Strobe, in particular, also, Jeremy and Ted. It's a special and personal pleasure for me to be here with my good friend, Pascal, today. I can't think of a better person to speak at the Raymond Aron lecture, with as a philosopher, a sociologist, political scientist or writer. Aron was known as a researcher who refused to be constrained intellectually by doctrinal structures. He resisted totalitarianism. He worked to understand the human condition in his own historical time and to improve it. And of course, Aron was an Atlanticist.

That's a pretty reasonable description of Pascal, as well, although as Pascal mentioned, he also applied his analytical rigor to the art of public service at the national, regional and global level, and he's had an exemplary record and career, and it's certainly been my great good fortune to have a chance to work together.

Our work together on trade is probably more generally known, but I wanted to mention that I first met Pascal when he was Chefs de Cabinet to Jacques Delors and I was working for Secretary of State Baker at the dramatic time at the end of the Cold War. And one of the reasons we started to connect was, as those of you will recall who, from those days, or at least have read about, at the moment of German unification was on the horizon, even after 40 years of Germany trying to bed itself in Western Europe, there were a lot of anxieties across Europe.

And the two people who I thought were in the forefront of understanding that this was a moment for actually, not only to achieve a Europe whole and free, but for Europe to advance were Jacques Delors and Pascal. And the reason I mention this is not only to recall the history, but if you think about the challenges that Europe faces today and you think about a Germany that is dominant, but doesn't want to be seen as dominating, it would suggest that a strategy of Germany working with European leaders could, in some ways, follow some of the experience of

Helmut Kohl with Jacques Delors.

And in that context, I don't want to embarrass Pascal, but if you do a mind experiment and ask what Europe would be like today if you had Mario Monti as president and Pascal as president of the commission and ask how you would deal with those issues, you'd have a very different approach. So, I think one of the only differences that I have with Pascal on the Democratic issues in Europe is that I'm afraid that, at least as I understand the debate about the Lisbon Treaty, the parliament wants to assume a greater role than this, and I'm not so sure that I would totally leave out the nation state in selecting important people for the Europe structures.

I just wanted to share four observations about Pascal's comments on globalization and governance, one more than the Cartesian, I'm afraid. The first, as Pascal noted, the sovereign state remains the principal actor in the international system, but the system has changed a great deal since the mid 20<sup>th</sup> century, which was a time that I think of unusual centralized state power.

In some ways, aspects of the system are much more similar to the way they were in the 19<sup>th</sup> century or early 20<sup>th</sup> century, where you had a large number of private actors, or in today's parlance, transnational actors in the system. So, while the sovereign state remains the key

player, I think one of the challenges for the multi-lateral institutions that were created at the midpoint of the 20<sup>th</sup> century is to provide a role of an inter-connective tissue among these states.

And it's important not to overestimate what they can do, but it's also important to appreciate the role they can play. So, it depends on the institution, but they can play a role of identifying issues. They can play a role of creating an environment for mediation. They can sometimes create a context for negotiation. For a few institutions, like the WTO, they actually have a formal program of dispute settlement.

Now and then, those institutions and their staffs can come up with ideas about trying to solve problems, and in the case of some, the World Bank, not necessarily the WTO or the case of the IMF, they can come up with financial resources or help mobilize others. So, those are not minor contributions in the international system, but what we certainly have encountered and all of you have seen is that at times when nation states have problems they can't solve, they dump them over to the multi-lateral institution and then blame the multi-lateral institutions.

So, the reality that I discovered is, there is an ongoing need to modernize the multi-lateral institutions created in a different era of very different structures. But ultimately, this depends on a combination of the national leaders as well as perhaps, some slightly more aggressive

posture of some of the multi-lateral leaders.

And this is a fine line. The multi-lateral leaders work for the institutions. They can't drift too far away from the nation states that are there, either shareholders or member states, but I think the leaders can also, now and then, push the edge of the envelope, not necessarily in the grand affairs of international relations, but things that can become very important to people over time. And that leads to my second point.

I've sat through many, many discussions about the question of legitimacy of multi-lateral institutions, and these will often focus on questions of voting or personnel and others. The issue that I always raise in those discussions, and those are valid points, is the need to keep an eye on results. Results are also a key part of legitimacy. So, the League of Nations had one nation, one vote. Everybody got to participate, but the results weren't so good.

So, I think this, again, brings back the challenge to the national leaders on how to use multi-lateral institutions effectively, and the leaders of those institutions. So, in the case of some of Pascal's experience, just on the trade side, in the financial crisis, we both recognized that trade finance was freezing up for a series of reasons, and we tried to work with private sector players, regulators and others to try free that up to help, particularly the poorest countries that were losing out,

but help the overall trading system.

Food prices. People often forget that before you had the market crisis in 2008, you actually had a big surge of food prices. And there are issues that were important related to the trading system and development in that.

Trade facilitation, which I hope will get an advance later this year, but has got the possibility of reducing costs much more than some of the formal barriers. And the one that Pascal mentioned of the intellectual generation which he led, and I want to come back to, is kind of the value—added calculation to try to get people to understand the role of trade differently.

A third observation is that if we think about the origins of today's multi-lateral system, it came out of people's recognition after World War II, or even as World War II was ending about the events in the '20s and '30s that had led to both an economic and political breakdown. And while this is a simplification, it was largely a U.S.-led system that was then joined by the European Union in Japan, a trilateral system.

That system has been drastically changed over the past decade, and it's the role that Pascal referred to of the rising economies or rising powers and the question of their shared responsibility. So, when we began the Doha negotiations in 2001, some of the middle income



countries wanted to continue to be treated as Sub—Saharan Africa. And that was, frankly, not going to work politically with developed economies that realized that these middle income countries were not at the level advanced economies, but they certainly weren't the poorest countries in Sub—Saharan Africa.

Now, what's quite interesting over the course of the decade, and Pascal could probably speak more authoritatively to this, that debate has changed. There is a recognition about differences among developing countries, but the middle income countries also say, look, we have 75 to 80 percent of the people living under \$2 a day, so you can't necessarily expect us to operate the same way as the advanced economies.

The reason I'm highlighting this is that if I were going to identify an issue in the global system multi-lateral governance that would be the primary question going forward for the next decade, it's this sharing of responsibilities in the system, whether it be trade, investment, development, currency and exchange rates, environmental topics, inevitably security. This will be the key question that the nation states will have to deal with using the multi-lateral system that they have.

And my fourth and final point is, at the end of the day, if you have a focus on results, nation state is key player, but recognizing the role of private and transnational actors, the best way that I can advise to try to

advance to create better solutions is to have a search for mutual interests.

And let me just give two examples to try to emphasize this point.

I've talked about the importance of the middle income countries as rising economies and powers, but a big issue today for the middle income countries is the so-called middle income trap. When I was at the World Bank, we went back and looked at the 101 economies that we classified as middle income in 1960. By 2008, it's almost 50 years later, only 13 of those 101 economies had made it to high income, and one was Greece. So, you figure out whether it's 12 or 13. (Laughter)

This is the dominant issue that China is struggling with today, and it's part of the debate in Brazil, India, all throughout Southeast Asia and Latin America. And if you think about what countries need to do to stay on a growth path to reach high income, it, of course, varies, but there are issues of infrastructure for some countries. For almost all of them, it's a question of human capital development. For a large number, it's having more effective and competitive service sectors, and also, deeper financial markets.

Now, if you think about those four topics, those topics are actually ones where the advanced economies could work with those middle income countries to help find solutions, so it's a point of mutual interest. But you could also do these within the exist structures. So, we

were talking with Strobe as we came in about the negotiation for the services within the WTO and how China recently joined that negotiation.

So this is where, it may not be the subject of grand designs or speeches, but there's a lot of practical work that can be done that could find mutuality of interest. And the second one is one that I jotted down after Pascal spoke about his third category. And the reason that I found this very interesting is that at times when Pascal and I would discuss this governance topic before, I would sometimes say, be careful about overly rigid systems in comparison with a Von Hayaken notion of a spontaneous order. And I notice that Pascal has come to accept some of this notion of spontaneous order, or, perhaps one where there would be a certain catalytic public context.

But I think this is a very important point to emphasize, and it builds on some of the work being done here at Brookings, where there's a lot of work on cities and urban development. If you think about climate change, if you think about growth topics, if you think about education, a focus on how urban areas develop this is going to be critically important.

I can tell you one example that Li Ka-shing, the premier of China will definitely be emphasizing, is emphasizing urbanization as one of his keys to the reform strategy. China is supposed to go from about 50 percent urbanized today to 70 percent urbanization by 2030. And it's also

a framework that avoids some of the political conflicts in the Chinese context, whether it be people moving from the rural to the urban areas, whether it be value added production, whether it be dealing with environmental topics.

But, I frankly have seen work McKinsey Global Institute and others have done. This question of cities is an important unit -- becomes very important within the notion of trying to solve problems. Well, certainly, one of the things I saw at the World Bank we tried to capture in a notion of democratizing development. If you open up information sources and you now recognize the availability that people have down to the villages to have sources of contact with mobile telephones, you now can really move to a whole different concept of development.

It moves away from a centralized, elite model to much more of a shared information, shared experience model. And over the past 30 years, you have development experience from developing countries, not just the U.S., Europe and Japan, that other countries in other regions can draw from. So, I would conclude with a point that I think, when Pascal and I have discussed this in the past, he sometimes not surprisingly prefers a Cartesian design. I sort of have the Anglo-Saxon common law evolutionary development of this.

But if you think about challenges for the world system, I think

this issue about mutual interests, trying to consider how the rising economic powers, how you can find points of mutual advantage, but then, also, whether it be private sector participants, civil society participants, whether it be urban development, I think there's a whole rich set of networks that can be furthered that could become part of a new form of governance, if you will. And I hope and expect that Pascal will continue to play a role in this search. So, thank you.

(Applause)

MR. SHAPIRO: Thanks. That was an incredibly rich couple of presentations. I'm very glad that we were able to bridge the Cartesian Anglo—Saxon vibe finally in this lecture (Laughter), which is actually one of the purposes of having it.

I think that we have a limited amount of time for questions. I guess I'll abuse the privilege of the chair to start off with the first question, mostly because I want Fiona to know that I substituted ably for her. And I was just sort of struck in both of your presentations by your emphasis in bringing in all sort of new actors and hopefully, creating some sort of spontaneous order.

And this was interesting to me, because when I thought about the realm that you two worked most closely on, the trade realm, the argument that you very often hear is that there are too many actors.

When we got together at Bretton Woods, there were some 40 countries there, but only one or two of them really mattered. As you pointed out, in the most recent Doha rounds, there have been 180 or so countries there, and many, many more than one or two matter.

And it's become, according to a lot of observers, just too difficult a negotiation, just too many-sided a negotiation to actually get anywhere. And this has led, I think a lot of people in the United States and elsewhere, to look towards smaller negotiations, to embark on a sort of competitive liberalization where -- and this is not just the trade realm, but certainly, the trade realm is part of it, where you find a group of like-minded countries; you create a high standards agreement that is ostensibly open, but to join, you have to join at that high standard, and you hope that it will eventually grow into something which will have global implications.

And this is, in some sense, the model behind the TPP and the Asia-Pacific and the model behind TTIP across the Atlantic. And so, I'm wondering in both of your frameworks, whether you think this is a good idea, or is this dangerous to a multi-lateral system which has traditionally, at least since World War II, depended on these global negotiations and these multi-lateral organizations to move forward?

MR. LAMY: When I left WTO, I took the commitment by

deference to my successor that I wouldn't, in public, address any sensitive issue which was related to WTO for a year, like widows do in my countryside. So, don't expect any provocation.

But on your first point, I'm of the view that trade negotiations are not victim of too many actors, but too little actors, and that it's a case where the monopoly of negotiations remaining in the hands of nation states is obsolete. After all, states do not trade. People trade. Businesses trade.

And I've always been struck at the discrepancy between what business people were telling me they were expecting from WTO and what trade diplomats were spending their time on. And I think trade facilitation, which Bob mentioned, is probably the first time since 20 years where the priority of business people to e-trade and the priority of trade diplomats is convergent, which is, by the way, the reason why I think it will work.

So, bringing more actors on, giving them a higher say, I think, is a major issue. And what happened, for instance, on access to medicines as far as WTO rules on intellectual property were concerned, also showed that we in civil society can also lead to results, which trade diplomats, if left to themselves, would not be able to deal with.

On your second question, are these mega-deals good or bad

for the multi-lateral system, it depends. It depends what will be in there, and we don't know that. And I don't think this is an essential question. After all, it's not a question of aesthetics, whether it's beautiful if it's multi-lateral, if it's ugly if it's not multi-lateral. Don't worry about the color of the cat, provided it catches mice. And the only important issue is whether this will lead to a proper leveling of the playing field worldwide at some stage.

Now, if you look at the previous generation of trade negotiations, which were basically about tariff reduction, no problem. A proliferation of bilateral preferences leads mathematically to zero. If you look at the new generation of trade negotiations which is about addressing regulatory discrepancies in, as I said, consumer practice, basically, it depends. Who? Where? When will the coherence happen?

We know EU is pursuing some of the bigger deals. The U.S. is. Japan is. And when I was WTO D-G and I went to Brussels, and I asked who is going to be the coherence maker on car emissions, food safety, lighters, chemical tracking of production systems, the answer in Brussels was, don't worry. We're going to do it (Laughter). And when I went to Washington and I raised the same question, the answer was the same in the U.S. We're going to make it (Laughter). You know, we've been thinking about this for 20 years.

And when I went to Japan, which by the way, if you look at



the map of these various mega-deals is the one that has the foot in five of them, which has no precedent on this planet, the Japanese would say, shhh. Please don't tell it. We are quite good at making this coherence, because you know, we know how to run the regulatory system. So we are the ones, because there's China, Korea, and we are negotiating with China and Korea. So we are the ones that are going to make it coherent.

So, several horses running. Jury out. It may work. It may not work. But at the end of the day, what will matter for business is a single set of worldwide standards, because this is where economies of scale come from. And if I want to go global, and I have to address if I sell chocolate, five different regulatory definitions of chocolate, I won't make a good business.

Last year, I went to Minnesota and had an interesting discussion about medical equipment producers. You know, this sort of chip which they now put in your brain, your kidney, your heart, whatever, to just fix it. Average price sort of, you know, \$5,000. And they told me that they had to cope with 35 different regulatory regimes so that their chips would be approved by the necessary national authority; and that if they had one, which of course is a bit of a dream, they would sell at a cost which would be 40 percent lower.

Now, producing medical devices at 40 percent lower price is

great news for humanity. So, it's not just that it's good for business, but it's good for business, but it can lead to very important progress. And these regulatory issues, in my view, are becoming the real crux of future trade negotiations.

MR. ZOELLICK: Yeah, just three quick points. One: I very much agree with Pascal. I think that there is a tremendous amount of information and insight that public officials will get from private sector participants, advisors, whether they be business, whether they be CSOs, environmental groups. The trade facilitation is quite an interesting one, in that you have a number of U.S. companies, but there are others as well, that have applied software, their knowledge about how to have express delivery, can make a huge difference.

But let me give you a specific example that relates to the TTIP, the Transatlantic Trade Investment Partnership. I suspect Pascal would agree with me on this. The traditional tariff barriers aren't very high with the United States and Europe. The real issue will be getting into these regulatory and standard issues.

When I first was appointed USDR, Pascal came to my house and we spent a good day sort of looking at -- he had been in office for a year -- looking at various options. And I had this idea about trying to get mutual recognition. And Pascal, in the same spirit in which he operates

said, I'm willing to try, but let me tell you, these are harder than you think to get these regulatory agency to agree to this. And I think we got one done in marine safety.

MR. LAMY: Yeah.

MR. ZOELLICK: And maybe one other one.

MR. LAMY: One (Laughter).

MR. ZOELLICK: Because if you think about it the regulatory agencies --

MR. LAMY: We got that one done, and it was done five years after you left and I left (Laughter).

MR. ZOELLICK: Okay. Now, and this is because regulatory agency have different cultures. They're not used to, why should we be involved in negotiation. What I think may happen in the TTIP, and this has got good, but also, some of the aspects people have to watch out for is that because we have transatlantic industries in autos, pharmaceuticals, chemicals, perhaps some others, the industries themselves are starting get together to decide what standards could be adjusted to allow greater competition.

So in effort, the overloaded trade negotiators are going to outsource this to these sectors. Now, that's not a bad idea. Of course, the companies don't fully represent the public interest, so you have to

have some other examination of those. But I think as you move to more complex topics in trade beyond tariffs and quotas, this is inevitable.

Second point. I was one of the authors of *Competitive Liberalization*, so you're too young to know this, I guess, but (Laughter) --

MR. SHAPIRO: No, I did the research.

MR. ZOELLICK: Okay. And I think this is important going forward, because the idea was, it's sort of a mixture of sort of state centered power and a multi-lateral system, the idea being that if you want to get momentum for liberalization, if certain countries decide they just won't move, well, then do you stop or do you try to say, look, we're going to try to move ahead with those that are willing to move. And interestingly enough, this is exactly what we used after the Cancun breakdown to actually get the negotiation back on track in 2004.

If you look historically at the periods where the United States has had an active free trade agenda, it also is the period where the United States has had an active global agenda. And this isn't surprising, because you have an administration or people who want to move that agenda forward. The research, contrary to what one person keeps writing, actually shows that at least of the agreements, Mercosur may be the one that's outside of it, tend not to have just a trade diversion effect. They tend to be sort of liberalizing.

But a very important lesson is, if you're a big power like the United States or the EEU, you have to keep on the global agenda. So, my argument for the case of the United States is I'm all supporting TTIP, but it's vital that the United States also offer a forum in the case of the WTO negotiations for others that want to try to liberalize.

But that leads to a third point, and I think this is going to be one of the challenges that the WTO faces. It's one that, since Pascal has taken his vow of silence he can't speak to, but I think we're at a point where we have achieved certain liberalization through traditional barriers such as tariffs using the most favored nation principle.

I think as we get to these more complex areas, services, government procurement, others, that there will have to be a debate in the WTO about whether there is a reciprocity, in other words, you have to be part of the negotiation to get the benefits. Okay?

Now, at times, the whole GAT system had this, and then it was sort of incorporated back, so everybody got the benefits. But frankly, I think it's just not going to be politically feasible, this is where my practical streak comes in, to say that the United States, Europe or others are going to have openings, and if a major middle income country doesn't take part, that they get the benefit.

This is a big step for the WTO, but frankly, if the WTO

doesn't take that step, I think the WTO will continue to be sidelined. And so, it's one of those topics that among kind of the high priests of Geneva, you can't even discuss, because they will say, oh no. This violates the basic tenets. I think the nature of the international trading liberalization has changed enough, if you don't discuss it there, it will go around it and we'll lose the WTO.

Interestingly enough, the services negotiation, because of the unusual history, has this principle. The participants and the services negotiation will be the only beneficiaries. And so just to connect these dots, I think this is why it's extremely healthy that China has joined the services negotiation. It fits its challenges as a middle income country. There will be pressure, you know, to the degree of liberalization, but it also shows that China is willing to work with the WTO system, and it should show that the U.S. and European Union want to keep that global system alive.

MR. SHAPIRO: Okay, great. Well, we'll all come back in six months and find out what Pascal Lamy thinks about it. So, we only have a few more minutes. Why don't I open it up to one round of questions. We'll take three questions, and then give the panelists the final opportunity to respond. Any questions? Yes, right here?

QUESTIONER: Monsieur Lamy, thank you very much for

your expose as (inaudible). One of the questions, Monsieur Lamy, if you don't mind me asking is whether it was a poor expectation management or a poor communication in discussing the benefits of globalization?

For example, in France, you have a debate nowadays, in Britain as well as in (inaudible), in which people are wondering whether or not they will take (inaudible), where is the omelet? We understand that you have to break the egg, but they have yet to see the omelet. And for (inaudible), when you go back to the fourth point which you made in regard to the search for common interest, is it perhaps, time for the Europeans, particularly Germany, to have some sort of, shall we say, sit down with its European partners in addressing some of the so-called dislocations which are within Europe? Thank you.

MR. SHAPIRO: Other questions? In the back there?

MR. KOBER: Stanley Kober. I'm looking at a Supreme Court decision from 2008, Medellin against Texas, which says that treaties aren't automatically enforced. This court, the Supreme Court, has long recognized the distinction between treaties that automatically have effect as domestic law and those that, while they constitute international law commitments, do not by themselves function as binding federal law.

While treaties may comprise international commitments, they are not domestic law unless Congress has either enacted implementing

statutes, or the treaty itself conveys an intention that it be self executing, as is ratified on these terms. And I'm wondering what the implications of this decision are. You may have the treaty, the TTIP, but do you need further congressional action?

MR. SHAPIRO: Last question? Okay. I guess we don't have any. But I think that's a fairly rich menu. Why don't you start, Bob, and we can give Pascal the last question.

MR. ZOELLICK: Well, on the treaty one, the trade agreements are not enacted by treaty. A treaty requires 2/3 vote in the Senate. The trade agreements have to pass both houses of Congress, and they do actually have enabling legislation as part of that. So, the executive legislative condominium that was created in the '70s was that what was then called fast track and now called trade promotion authority is that the executive branch works with the Congress to develop the implementing legislation in a sort of parallel legislative process.

So, there's non—mark up markups. In other words, there's a markup process, but we don't call it a markup process through the Congress. And that comes up with the enacting legislation that the executive branch provides with the agreement. So, I don't see an issue in the case of trade agreements, but the issue you raise may very well come up in other treaty contexts.



I'm not sure I totally got the first question, but on the benefits of globalization or the cost, I think this is going to be a perennial problem, because the benefits tend to be widely distributed. The costs are often sort of felt locally. But it also has something to do with political history. You know?

In the United States, the union movement has traditionally been against open trade. The union movement in Australia and Britain is actually supportive, and the labor party has been supportive of trade. And then, I think this goes all the way back to the corn laws and the idea that repealing the corn laws in Britain at the time of -- I'm just drawing a blank -

MR. LAMY: (inaudible).

MR. ZOELLICK: No, the Prime Minister. Anyway, it basically lowered the cost of food for people. And so I think you know, this is sort of inherent in kind of the nature of the way that trade and investment works. I think, coming back to the point about the role of the private sector, ultimately, a lot of the organizations, including businesses that benefit from this, have to do a better job of educating.

Some would actually start to put information on the pay slips to explain what percentage of the product was abroad. You know? So, it blew my mind that the machinists of Boeing were against trade and, I don't

know, 80 percent of their product is sold abroad.

The two Congresswomen from Silicon Valley voted against trade promotion authority, even though you would think that Silicon Valley would be part of a global system. But why was that? And this is the practicality of politics, is that the Silicon Valley companies didn't seem to value it, at least as much at that time, where the unions were very important for a democratic primary.

Now, you've seen how a lot of those technology companies have gotten more active on this topic over time. And you've seen them in Brussels and other places. So, this partly will have to change in terms of building the coalitions of support.

And then, I think another part of it is that we need innovative societies to kind of help people with the adjustment process. Now, this was traditionally done through trade adjustment assistance or worker assistance types of, in a sense, sort of funding arrangements. The United States, I think spends about 18 or 19 --- no, maybe it's \$21 billion a year on worker assistance, and not just for trade, but for all forms. And what we get for it is pitiful.

So you know, frankly, if I were the Secretary of Labor, my number one challenge would be how do we use that 21 or 22 or \$23 billion to be much more effective? So, this is where kind of the other policy

dimensions, I think, can be supportive. But ultimately, you know, this is one of those other issues where I think as the general public gets more internationalized, as young people are now through the Internet, you see these in the humanitarian side; people willing to you know, support, whether it be issues of hunger or whether issues of disease and other aspects.

And I think part of the challenge in this field is to explain not only from developed countries, but from developing countries how this is very much important for their own growth, and it fits back to the notion, ultimately about leaving the dependency theory behind and having a chance for developing countries to make it on their own. And so you know, there's no magic bullet for this. I think it's part of an ongoing political debate. It's tied up with immigration, too, would be another good example.

MR. SHAPIRO: Pascal, you're from the country which has arguably benefited from this.

MR. LAMY: On the treaty question, you got exactly the same symmetric issue in the European Union, whether a trade agreement has to be only ratified by EU institutions, or whether some national parliaments have to step in. There are some cases where there still are elements that would necessitate national ratifications in EU signed trade

agreements.

On the French issue, I think it's, for me, one more case of Exception Francaise. There is a special neurosis in France about liberalization. I don't know, it's that sort of pathology where your body is one place and your mind is in another place. Well, the body of France is in liberalization, when you look at the number of French international, multi—national, then it's one of the most countries with the most globalized economic (inaudible).

But the minds of the French are elsewhere. So, there is a pathology there. Their bodies are in one place and their minds are in another place. And until and unless it connects, there will be this specificity in France which I never notice in any other country, even Cuba, Bolivia, Ecuador, to take a few examples of you know, countries who have a reasonably sort of antique capitalist stance. It's a French exception.

And it's a worrying one, because the view being that France is a victim of globalization, that it's surrounded by a nasty, dirty, aggressive world of terrible dangers, a sort of idiosyncrasy from left to right. There's no exception on the political spectrum. The mantra is, let's change the world, which is bad, before we change France (Laughter).

And that leads to a sort of stalling in accepting that you've got to adjust. You've got to make reforms that most of the countries who

have done that have done extremely well. Always you know, coming from outside is a problem. And of course, it stems from a very long tradition of centralization, a belief in the magic of statehood, which our institutional system perfectly prolongs this notion that, you know, the king can cure any sort of illness just by a sign of the hand; a sort of deeply rooted, sort of land protectionism as a country who missed most of its maritime fate, although it has a huge maritime frontier.

So, all of this is rooted in history. It will take time to change, especially if nobody advocates this change. But it is a large part of history. One of the reasons, which Bob mentioned, while at the time where the technological revolution of moving from sail to steam in transatlantic transport of grains, in the UK, they had no land revolution. So there were large estates, landlords, and landlords wanted to protect their business from the huge decrease of prices in the transatlantic. And CupdeN, who was the advocate of the poor --

MR. ZOELLICK: Robert Peele was the (inaudible)  
(Laughter).

MR. LAMY: Yeah, Peele. Yeah (Laughter). He campaigned against these landlords so that the price of bread would benefit from the technological revolution. Now, you just cross the channel, and in France, because the French revolution had reformed the land

ownership allowing inheritance to be shared between your children, the population was small land owners. And these small land owners were very numerous, were stronger, especially at the time where the republic had to get the necessary majority in parliament, and Medellin did his tariff protection and was a national hero.

So, you know, a few kilometers in distance, because of different structures, and that's deeply, deeply rooted in the French mind. And I think it's something which is, unfortunately, very difficult to change, but that should change if this country wants to sort of keep the sort of -- it's one of the countries on this planet who has a world vision.

But maybe, I think it's a respectable ambition. It's better to have the influence that goes with the vision, and I don't think you have the influence in the modern world, only with a seat in the security council and an atomic bomb. I think the performance of your economic and social systems is much more of a tool of influence in today's world, and I'm sure, 20 or 50 years from now, even more.

MR. SHAPIRO: Well, thank you. I'm glad we could end on that note of French exceptionalism (Laughter), since it is French exceptionalism which -- in both its good and bad forms, which has justified this lecture, and has, I think, made it successful over the years, because we've had a lot of exceptional speakers. So, please join me in

thanking our speakers and thank you for coming.

(Applause)

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