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GLOBALIZATION IN A TIME OF TURMOIL:
A CONVERSATION WITH
PRIME MINISTER STEFAN LÖFVEN OF SWEDEN

AN ALAN AND JANE BATKIN INTERNATIONAL LEADERS FORUM

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P R O C E E D I N G S

MR. TALBOTT: Good morning, everybody. I'm Strobe Talbott and it's my great pleasure to welcome all of you here this morning. When spring finally comes to Washington, so do world leaders. They're here to consult with their counterparts in the U.S. Government and also to interact with their colleagues here in town from other countries and to have consultations with the international institutions that are based or represented here, and, fortunately, sometimes to take advantage of a forum like this to meet with people like all of us. And we're very pleased that so many of you would come out this morning.

The year ahead is a particularly important one and I think all of us recognize that. There is on the agenda of what I will call the great project of global governance a number of very important meetings that are going to be coming up over the course of the coming months. We have, of course, the World Bank and IMF Meetings here in Washington in a couple of weeks. In May, the World Education Forum in Incheon. In July, the U.N. Conference on Financing for Development in Addis Ababa. In September, the United Nations General Assembly is going to convene the heads of state to agree on Sustainable Development Goals for the next 15 years, a project that Kemal Derviş and Homi Kharas and our colleagues here at Brookings in the Global Development Program have been very much involved in. And then in December, of course, there's going to be the COP21 ministerial meeting in Paris on climate change, a topic that I know is going to come up in our discussion this morning.

Sweden is active on all of these fronts and all of these issues, and we are very honored to have Prime Minister Stefan Löfven here to talk with us this morning. He's going to be giving us a personal and a national perspective on what it'll take to put

globalization back on a positive and well-governed track, and that is a perspective that is informed not only by his vast experience on these issues, but also recent visits to Beijing and Kiev. And speaking of the crisis in Europe, the prime minister will, I'm quite sure, have some insights on the behavior of Sweden's very large neighbor to the east, Russia.

After his opening remarks, the prime minister will conduct a conversation with Kemal Derviş and he will also have a chance to take questions from the audience.

Those of you who Tweet are welcome to do so on this event. The hashtag for the event is #swedenfp as in "foreign policy."

So over to you, Mr. Prime Minister, and thank you again for being with us this morning. (Applause)

PRIME MINISTER LÖFVEN: Thank you very much, Strobe, for those kind words. Is it 10 years now since you received a medal in Sweden, the Polar Star, First Class? It's 10 years?

MR. TALBOTT: I think so.

PRIME MINISTER LÖFVEN: Yes. So that was well deserved, we believe, so congratulations again.

It's an honor to be here at the Institution. I look forward, also, to having this discussion, Kemal, with you and with the audience. Thank you for moderating that discussion. And I'm very honored to be at The Brookings Institution because this institution is exactly that, an institution. And I'm told that you two humble yourselves, but the rest of the world can say it's number one, I guess. So that is, at least, what I hear.

Now, I'm very glad that I get this opportunity to reflect on a favorite subject of mine, and that is how we can make globalization work for everyone, not just for a few, not even just for almost everyone, but for everyone, and that is crucial. And that

also in time of turmoil that we experience right now. I want to talk about interdependence, about a shared planet, about free and fair trade, and also about an inclusive globalization.

Let me start with a quite banal observation and that is that interdependence is a fact of life. It's a human condition and it also is a feature of humanity. But, and that's the point, we can make choices about the nature of our interdependence. Should it be formed by solidarity and empowerment or by domination and belittlement?

Now, asking ourselves this question is how I believe that we should approach globalization, the most powerful process of interdependence up to date. And globalization still involves choice. We can shape globalization because some people say this is something that just happens. It's a part of nature. We can't do anything about it. And that also makes people afraid. I can see that at home in my own country, but I can also see it in other countries that people get worried. What's happening? Can we control this? Yes, we can shape it and that's crucial to see.

2015, exactly as you said, Strobe, is the year of important meetings for globalization. World leaders now, this year, will be called upon to make crucial decisions about the future of our planet. This is what it's all about. I will focus my remarks now on some of the main political challenges and opportunities that I see ahead of us this year and beyond.

The first challenge concerns the bedrock of our global and international order, and that is abide by the rules. For a relatively small country like Sweden, right over might is essential. And for us, a recent example of what can go wrong can be found in Ukraine.

I visited Ukraine earlier this month. Almost a year had passed since the Russians' illegal annexation of Crimea and Sevastopol, and that was a clear breach of international law, against the U.N. Charter, against the Helsinki Final Act. And since then, Russia has pursued its strategic objective using what is known as hybrid warfare in Eastern Ukraine and that objective seems to be to deny Ukraine the right to make its own choices. But I'm confident that Russia will ultimately fail to achieve this objective. The Ukrainians I met, they have made up their mind. They want to decide on their own future. They do not accept an order drawn up in terms of geopolitical spheres of interest.

But also because Russia's aggression and conduct transcend the whole of Europe, they are ultimately a global concern. We cannot look at the Ukrainian example as an isolated one. This has to do with the rule of law, rule of international law, and that is very crucial to see.

Because this illegal annexation of Crimea and the war in the Eastern Ukraine, Russia is contesting the basic rules and norms of international coexistence. That is what has been challenged. And when that happens we must stand firm. We have done so with a strong and unified transatlantic response for which I'm very happy, and we have shown the separatists and the Russians that we do not accept this. We can never accept it.

And at the end of the day, abiding by the rules is a peaceful way of managing interests and, of course, also by that interdependence. Making international law and rules count is the best insurance policy that we can have against violent conflict such as we now have seen in the Ukraine.

Now, a tall and urgent task connected to that is to combat violent extremists. That includes now the dramatic rise of foreign fighters that we can see joining

ISIL in Iraq and Syria. We do appreciate the leadership and the efforts by the United States in this field, including the recent conference that was held here in Washington.

Another area in which the job is far from done is disarmament and nonproliferation. Indeed, today is a very, very important day as we are now eager, waiting for news from Lausanne and to see if there's any progress in the negotiations on the nuclear talks with Iran. And that is also a diplomatic endeavor that Sweden is definitely wholeheartedly supporting because the threat of nuclear weapons is, indeed, a very, very stark reminder that life on Earth can be fragile. And we as a country will be active within the United Nations to also discuss nuclear weapons. We cannot have those on our globe.

This leads me, my friends, to my second globalization challenge and that is realizing that our space here on Earth is shared. That is easy to say, but the next thing is to discuss how do we act upon that insight. Take growth, for example, economic growth. I guess every leader in the world can stay awake at night and think about growth, how do you achieve growth, because if you don't, you cannot provide jobs, and if you don't do that you're out of office sooner than you think. But being out of office is one problem. That's a minor problem. The big problem is how do we afford the wealth that we want to build?

But growth, at the same time, can only be sustained if it's ecologically and environmentally sound, and the jobs are, therefore, green. The jobs for the future are the green jobs.

Shouldering this responsibility is crucial, also, for security. If we don't, conflicts over scarcity will steadily increase with serious humanitarian consequences. Dependency on fossil fuels in Europe and elsewhere makes us definitely vulnerable.

Renewables is the smartest way to energy security.

And that is what the Climate Summit in Paris in December should be about. The sooner we invest in greening our economies and societies, the lower the long-term costs will be and the greater the benefits. Now we stand literally at a crossroad this year, 2015. We have to make a choice, what path are we going to take? And there's one joint task that we need to focus on, and that is to keep the global heating below 2 degrees. That is what we need to focus on all the way to Paris. And if we do that, I'm sure that we can have a successful conference in Paris.

There is a choice. We know that. We know that climate change is for real. And for those who are not really sure is it for real, please don't take that risk. We cannot afford taking that risk. So we need forward-looking, bold leadership to tackle it.

The same holds true for the third challenge that I want to talk about. At the same time this is an opportunity. This is about delivering free and fair trade.

This subject is very close to my heart because I have a background within the manufacturing industry and I was a chairman of the biggest, largest Swedish labor union for industrial workers. I represent also a country that is very dependent on trade. Our export equals to around 50 percent of our GDP. Fifty percent, five-zero, so everybody understands this is very important to us. Our economy also ranks among the most competitive economies in the world, but we do see challenges. We are challenged, so we have to watch out.

You will not be surprised, therefore, to hear that I'm a staunch supporter of the Transatlantic Trade and Investment Partnership, the so-called TTIP. It holds so many promises between our two largest economies in the world. And trade, however, should not be translated into a competition with ever lower salaries or lower labor, health,

environmental standards. This is not the way to go. Competition should revolve around innovation, research, and development. It should be about being better, not cheaper.

The uncertainty of risk in this is exactly why many people are wary and worried about globalization. Where is it going? It can be connected to and associated with a race to the bottom, which, in turn, offers fertile ground for the easy answers: bigotry, to isolate yourself, populism. TTIP is not the solution to everything. I don't believe that. But it is definitely a very important opportunity to get trade agreements right, to start making free trade also fair trade. And to that I would also like to add open.

The bilateral trade talks that are now underway are not the endgame. Rather, they should contribute, also, to further cooperation within the WTO.

Now, the European Union and the United States should now seize the chance to set global standards, to make our economies fit for the 21st century. And if we do not, others will get there before us, so let's take this chance, this opportunity.

In my country, this is not just the government's view. Swedish businesses, Swedish labor organizations are also strong supporters of trade. I just want to underline not just any trade, not just under any conditions, but good conditions. But trade is essential. And trade agreements struck between governments must uphold labor, environmental, and health standards. But, of course, we need acceptance from our social partners, from business, and from workers.

I think of this basically as a global deal or a handshake, a handshake between stakeholders in our different countries. By that I mean the societies, the social partners, those are the most important stakeholders. And we need a handshake on a global level that can secure that everybody gets a good trip, so to speak, in this global economy.

And yesterday, at a session in the United Nations on decent work, I had an opportunity to expand this idea. I called it a global deal. And the global deal is not an agreement, it's not a single contract. It's a concept. But I think the time is right now to raise that since we have a global economy and our economy is growing into one another more and more by every year.

So how do we manage to develop a global economy in which everybody can see, yes, this is a good future for me? I have a good opportunity. I think it takes a dialogue between the social partners, but also between the social partners and the societies, politicians, so that we can contribute to a positive future. So I believe cooperation not least between the social partners are very, very important and can bring peace to the labor market because it will result in a dialogue in which both parties, the employers and the employees, can feel some security this is going in the right direction.

So I am an optimist. I am a reformist. I really believe we can make the world's 3 billion strong labor force part of an economically, socially, and environmentally sustainable global economy. And that way we can all grow together.

A good place to start this is in China. On Sunday, I arrived here directly straight from Beijing. And as I understand it, the Chinese economy is now entering to a new phase. We can see that. It starts to consolidate with an increasing share of growth now stemming from consumption rather than only from export, so something is happening in China. And this development brings opportunities, definitely, also for the improvements of working conditions. And it's obvious that the discussion is growing in China, although the freedom of speech is not given to everybody.

But workers are being more cognizant now of their rights and they're claiming their rights. You have all around China every year now 180,000 different

disputes, conflicts, and that shows that there is something going on, also, in China. And I believe that employers are more mindful of their responsibilities. I noted that with great interest during this visit. But having said that, there's no doubt a great deal remains to be done.

This leads me, my friends, to the fourth and final challenge, and that is making globalization and our world more inclusive. Take the spiraling inequality, a global trend that affects us all. There are many reasons to combat inequality.

First, of course, on moral and ethical grounds, the conviction that inequality is unjust.

Another reason is that inequality works against social progress. It causes reduced democratic and civic participation, for example.

The third reason that has gained particular attention in global economic forums, evidence from the OECD, for example, shows now clearly that inequality hampers growth. Inequality hampers growth. Equality would support growth. For example, it keeps many low-income households from pursuing education and that sets them on the opposite path to where jobs are in the future. Inequality is, plainly speaking, bad economics, but equality is smart economics.

And this trend of inequality could and should be reversed. The way to do it will vary, of course, according to different circumstances. However, I must insist that there is one task that is common for all nations, societies, and economies, and that is to target the greatest, most entrenched inequality of all, that between the sexes; to address what former Secretary of State Hillary Clinton so aptly described as, and I quote, "the great unfinished business of the 21st century."

I am proud that the Swedish government is the first in the world to

declare itself feminist. We are a feminist government. In practice this means that gender equality is at the very core of our government business, from gender-responsive budgeting to feminist foreign policy. Now 20 years after the landmark, the Beijing Conference on Women's Rights, the world is still embarrassingly far from gender equality on almost every count: political representation, economic empowerment, and social norms. This is a denial of human rights and also a waste of talent.

This is not a concern only for some, but for everyone, women and men together, girls and boys. And that is why I have joined the global U.N.-led campaign HeForShe. I'm a proud member of HeForShe and I do want more men. There are several men here that can join HeForShe. Please do that. I encourage you all.

And later this year, in New York, leaders will have a good opportunity to advance a global equality agenda. The Sustainable Development Goals to be set at the United Nations in September must catalyze and deliver irreversible, substantial, and sustainable progress for gender equality. That is our common task. That should also put us firmly, those goals, on the path to reducing social inequality in general.

And this, finally, my friends, brings me back to where I started this morning. What should be the nature of our interdependence in a globalized world? My answer is solidarity and empowerment, not domination and exploitation. We can choose rules over might, sustainable prosperity over fossilized shortsightedness, gender equality over structural discrimination. We can choose decent work for all over a race to the bottom.

We can really make a difference. We can make globalization a process of togetherness, of inclusiveness, in which we grow, in which we trust one another, and in which everyone benefits. That's a choice that we have. That is a choice that we can

make.

Thank you for listening. (Applause)

MR. DERVIŞ: Mr. Prime Minister, thank you very much for this wonderful speech. In half an hour you gave us a fantastic overview of a very large field and we have little time, so let me just ask you two questions and then we'll have a discussion with the audience within our time limits.

The first relates to the trade agenda, which you underlined a lot. And within that topic let me ask you two questions. One is where are the obstacles within the TTIP that you see? I mean, can Europe and the United States get there, so to speak? You know, what are the steps that seem the most crucial?

And the second, connected to this topic, the second question is you stressed that this would be a beginning, not the end. And many developing countries, as you know, are afraid that it will be a deal among the rich and powerful because in the first steps they are excluded as opposed to WTO where everybody was included, but then where there was not much progress lately. So how do you see, assuming that the TTIP succeeds, that it can be an open architecture and that it can really include the whole world?

PRIME MINISTER LÖFVEN: Well, first about the obstacles. One is, I believe, transparency. That is the most obvious. If there is not a transparent process, people will be very suspicious. And I'm glad that in the European Union -- I was talking to our commissioner now responsible for these negotiations, Cecilia Malmström, and I also looked in the European Union home page and could verify that, from our point of view, we can see every proposal that the European Union is now making to the United States. So as soon as we have reached a conclusion, what we want to offer, what we want to

take up on the table, it's on the home page, so everybody can see what is being discussed. And I think that's crucial because there's so many misunderstandings also being discussed within TTIP, so we must be as transparent as we can.

I know there is a limit, also, on transparency, but we have to be as transparent as we can. So that, I think, if you're not transparent, that's an obstacle, but it is also an opportunity to show.

MR. DERVIŞ: Because rumor develops.

PRIME MINISTER LÖFVEN: Exactly, and that brings me to the other obstacle. There are four letters that is being discussed, few know what they mean, but everybody has an opinion, and that is ISDS, Investor-State Dispute Settlement. It's a regulation within current -- I mean, existing trade agreements that are supposed to take care of if there's a dispute between the investor and the state, how do you handle that. And I'm the first to acknowledge that the rules that we have today are not good enough, far from good, because it means there is a risk that the democratic decisions can be challenged by private corporations, and that is not the way we want to go.

But, at the same time, we need some kind of dispute settlement. The investors need to know there is some kind of legislation that they can follow if their investments are being challenged in an unfair way. But everybody is talking about ISDS as the worst thing the world has ever seen and they're also talking about the ISDS within this treatment as if they know what it is going to result in. We do not know that yet. The negotiations are going on. But, at the same time, I respect their view that they see this as a threat, but we need to show we can construct dispute settlements that are good for both companies and for the democracy.

Now, about the low-income countries, yes, I've been thinking about that

a lot. Is it a risk that we are now these two huge economies, U.S. and EU, doing something that will exclude others? And that is why I pointed directly that we need to go on to also have agreements within the WTO.

What I believe is that TTIP can raise the standard, can set a good standard that can also be implemented, so that other countries can, of course, also join in one way or another into trade agreements because we need to be very sure that -- I mean, take Africa, for example. We have many African countries with growth, about 7, 8, 10 percent; they are already a part of the global economy, so we cannot exclude them. And we know that, also, our companies are involved all over the place. They are in Africa, in Asia, they are here, so we cannot agree upon trade agreements that does exclude.

MR. DERVIŞ: So American and European negotiators will have to keep that in mind while they're negotiating. They're negotiating a treaty between them, but they are also doing this in a world which needs to be able to somehow, as you said, join.

PRIME MINISTER LÖFVEN: Yes. I think it's a similar discussion as we had when the European Union was developed or ASEAN in Asia. We cannot build organizations that excludes other parts of the world in a global economy. We have to build them in such a way that we can include.

And I don't know about the next step after this TTIP, but I think it's important that we stick, also, to the World Trade Organization and make it possible within that frame.

MR. DERVIŞ: Thank you very much. Now, one question on the climate issue, and then maybe I will have one-third question and then turn it over to the audience.

We're now in the period of quite low oil prices. I mean, they have

declined, depending on how you measure it, 40, 50 percent. It would seem, given that the user price of oil has declined so much, that what economists think is the best instrument of policy, not the only one, but one of the best, to fight climate change, namely a carbon price, it would seem that this is the best time to introduce it. You can't introduce it when energy prices are sky high because you're making them even higher. But when they're so low, it's an historic opportunity, and there is still some time until December. Do you think there's any chance not for an agreement on a universal carbon price, but that countries move in that direction and commit themselves while the oil prices are so low? And what exactly is happening in Sweden on that front?

PRIME MINISTER LÖFVEN: We have a carbon tax and we think it is working. I think it's good for several reasons.

One is to show that the use of carbon has a price. There is a cost connected to that. So I think in the long term we need to go that way because, once again, if we do not stay under -- that is why I am focusing on the 2 degrees and that is why we all need to focus on 2 degrees and to know exactly what we're doing because sometimes we discuss too detailed this is not good for the moment. It raises the price on gasoline for an X-number of Swedish krona or (inaudible) or whatever you call it, and, of course, that is not popular. But we need to know where we are going and carbon tax is definitely one of those measures, one of two that we need to install. I believe that's definitely, yes.

At the same time, having said that, we also know that the oil price can go up. So when I visited Dagos, the World Economic Forum this year, we had a discussion about that. And some said, well, you just wait six months, you can have an upturn, an increase of the oil price because supply is now going down. And when the upturn in the

economy comes there will be an increased demand and less supply, and you do not know what the price is. So I think one mistake that we can do in that sense is to believe that what we have now will stay.

MR. DERVIŞ: But one could lower, not abolish, but in a way have a flexible carbon tax which would go down when the oil price goes very high, and so, in a way, have it as a shock -- both have a carbon price and as a shock absorber.

PRIME MINISTER LÖFVEN: You could, yes, but I would say, I haven't thought this through really, but I would say that it's better to stick to -- if you choose one path, you put a price on the carbon and you stick to that. You stick to that.

MR. DERVIŞ: Okay. Last question, on inclusiveness. The nation state, you know, 100 years ago, 15 years ago, had a lot of leverage. But with the mobility of capital, with globalization, as you explained, have come new challenges. And the nation state to fulfill its social responsibilities must have a certain revenue base. Now, the G-20 and even conservative leaders have pushed this, like Cameron, are addressing the issue of tax base shifting, which is a major tax issue for the world. Some corporations are paying literally no taxes in the countries where they're making big profits because it's possible to shift, legally, the source of profits to other countries or to islands or whatever.

If you want an inclusive economy, somehow there has to be coordination, more sovereignty sharing or coordination, a coordinated effort to preserve the tax base at a reasonable level, not to increase it, but to stop the race to the bottom. Any thoughts on that?

PRIME MINISTER LÖFVEN: Yes, and you're right, this is very difficult because all the nations, all the governments want to keep that ability as your own, the right to tax.

I think one of the most important tasks right now in a short perspective is to avoid tax fraud. There is a huge amount of money that we can put into the formal economy by helping one another to fight tax fraud. A huge amount of money. And, of course, some countries can also decide that they want a common kind of tax base. Within the European Union you have now 11 countries that have stated they want to have a tax on the movement of capital, so that is what they want. At the same time, we are afraid that that will only transfer capital to other parts of the world. But they have said they want to try it, including Germany. So Germany is prepared to try that kind of tax.

Well, of course, it's doable. You can see that in the future that there might be, also --

MR. DERVIŞ: The G-20 have started a Working Group on trying to define --

PRIME MINISTER LÖFVEN: Right.

MR. DERVIŞ: -- where were taxes.

PRIME MINISTER LÖFVEN: A lowest level.

MR. DERVIŞ: Both that, but also where.

PRIME MINISTER LÖFVEN: Yes.

MR. DERVIŞ: In other words, if you sell products in a certain market, that's where tax should apply rather than --

PRIME MINISTER LÖFVEN: Exactly, exactly.

MR. DERVIŞ: -- somewhere else.

PRIME MINISTER LÖFVEN: Definitely, that kind of rule, absolutely, because we have to limit the huge corporation's possibility to move capital like that.

MR. DERVIŞ: Right.

PRIME MINISTER LÖFVEN: They have to be able to move capital to invest, yes --

MR. DERVIŞ: Yes.

PRIME MINISTER LÖFVEN: -- but not to play --

MR. DERVIŞ: Accounting games.

PRIME MINISTER LÖFVEN: No. That's not good.

MR. DERVIŞ: Okay, well, many thanks. This is such a rich topic. And I now turn to the audience.

Yes, first hand that I saw. It will be good if you identified yourself.

MR. KATZ: Thank you so much, Mr. Prime Minister. Sherman Katz is my name. This is a question about the labor market in Sweden.

You are particularly familiar with this labor market from your own experience. You described yourself as a reformist. You mentioned the fears about globalization. The question is whether there are experiences in Sweden, as between the government, the private sector, the unions, to help cope with displacement because of globalization that you think may be of interest to other countries? Of course, there are many differences, but we've taken wonderful institutions from Sweden, like ombudsman and others, so perhaps you have suggestions that can be helpful to the rest of the world.

PRIME MINISTER LÖFVEN: Well, first, I'm a bit cautious giving other countries advice, but let me say like this. What I said earlier in the speech was, that I think is crucial to everybody in order to improve conditions, I think it's absolutely crucial that we have this dialogue, and that is one of the basic foundations of what we call the Swedish model. You find a way to create a win-win-win situation.

Basically, we have different interests, me as being a welder, a metal

worker. We had a trade union and we wanted to negotiate, of course, for the best possible conditions in terms of wages and other things. The employers wanted the maximum profit, reducing costs. So there were two interests combating one another. And in the early 1900s, we had several huge fights between the social partners.

Came to an end when everybody said this is not helpful. We're losing, everybody's losing. We have to find a way. So there were negotiations and, after that, in the late 1930s, reach an agreement, stating that social partners need to find a way to solve this. Negotiation.

And, at the same time, the government said we will support this. We will support you with Social Security, so in the case that you get unemployed or sick, we can support the individual. We pay taxes to do that.

And we will also provide education, training, so if you are unemployed, if you get unemployed, we will support you with training, education to get into a new job. Your path to a new job we will support financially by cooperating, all of us. So we pay taxes into a system that makes you sure if you get out of a job, you will be supported to a new job, economically and also by training. Well, that's the short version. That's a very simple description, but it's important to see that combination.

So how do we help one another to create a win-win-win situation? I do not know what that means right here in the United States or in other parts of the world. Well, I can have ideas, but I think it's up to the different countries to decide themselves.

But I want to underline that I think that way of working is better than combating one another. And I think that way of working is needed now at the global level, and that's new, the global level. That is why I'm talking about this global deal. We need a similar way to work at the global level.

So I don't know if that was -- I hope that was an answer to your question.

MR. KATZ: Thank you.

PRIME MINISTER LÖFVEN: Thank you.

MR. DERVIŞ: There was a hand in the back. No, the first lady in the fourth, fifth row. We have to keep, also, some gender balance in the questioning.

(Laughter)

PRIME MINISTER LÖFVEN: That's right. That's right.

MS. BERNSTEIN: Thank you. Leandra Bernstein, Sputnik International News. A question about Russia.

It was reported that you're going to be increasing defense spending and I think it was reported that it was in response to the failed search for the alleged Russian submarine last fall. How much are you going to be increasing defense spending? Is this directly in response to the threat from Russia? And then, also, how big of a concern is espionage from Russia?

PRIME MINISTER LÖFVEN: Well, defense costs will rise, but we're right now negotiating on that, so we don't know the outcome. The government is negotiating with the opposition, so we are trying to finalize that agreement soon, but we don't know.

We do have to raise, increase the defense costs. We know that. We have to improve our military capacity. We agree upon that. It doesn't mean that we say -- we do not say that we feel Russia as an immediate threat to Sweden. But Russia has over the years now -- six, seven, eight years -- increased its military capacity quite dramatically, although from a low level because after the collapse of the Soviet Union, the defense, also, almost collapsed. So it found itself on a low level after some years, but now they have increased their military capacity.

And, of course, given what has happened in Ukraine, we need to safeguard that we can handle a situation. Given the challenges that our Baltic neighbors can see and their borders are being challenged almost every day, almost constantly something happening, the way the Russian fighter aircraft acts in the space just outside of our countries' borders is not good. It's not good. So we need to make sure that we can defend our country and that is why we are now raising our military capacity.

About the espionage, it happens. I guess, there are several countries engaged in espionage.

MR. DERVIŞ: All right. With your permission, Mr. Prime Minister, I think maybe three questions, one after the other, and then you -- you know, because we're running out of time, and then you choose which one to answer.

PRIME MINISTER LÖFVEN: Sure.

MR. DERVIŞ: So there is -- yes, the young lady over there in the front first, and then -- yes.

MS. ALEJO: Thank you. Good morning, Prime Minister. My name's Isabelle Alejo. I'm from another think tank here in Washington, D.C. So my question is regarding your recent trip to China, as it just concluded last weekend.

I'm sure you've heard about this in Beijing, but the top leadership in China are now constructing the outreach and development bank called the Asia Infrastructure Investment Bank. And many EU key economies, including the UK, France, Germany, have pledged to join the bank. So I'm wondering if Sweden is interested in that as well. Thank you.

MR. DERVIŞ: That's one question. Yes, here, the gentleman up there. I will go in the back because otherwise -- okay, go ahead.

MR. FORTNAM: Hi, Brett Fortnam.

MR. DERVIŞ: Be as brief as possible.

MR. FORTNAM: Brett Fortnam from Inside U.S. Trade. You mentioned you're a staunch supporter of TTIP. I was wondering if you were concerned that this deal might not be able to be completed either within the Obama administration, if it would bleed into the next administration.

You also mentioned how important social partners were with this, and I was wondering is that a politically important issue in the EU and how can Sweden work to get those partners on board?

MR. DERVIŞ: Someone in the back there. Yes, the gentleman here, all the way near the window. Yes, you, right.

MR. CHA: Thank you. My name is James Cha. I'm an independent reporter.

My question regarding your trip to China, but you didn't mention Boao, which is on the southern end of the country, where you delivered a speech, perhaps about cooperation, collaboration with the Chinese regarding the Asia Infrastructure Investment Bank. And given that the most partners of U.S. allies have signed on in, so what's your takeaway from that forum, what the Chinese government promotes? Thank you.

MR. DERVIŞ: Okay. And then the lady there in the middle, right.

MS. MOUSSA: Good morning, Prime Minister. My name is Dani Moussa. I work at the World Bank, but this is a personal question.

I'm Swedish and I'm very proud for Sweden to have recognized the Palestinian state. I would like to ask you since you mentioned inequality hampers growth

and how good that is for the world to stop inequality, what is the future of the Palestinian state according to your foreign policy?

MR. DERVIŞ: Well, Mr. Prime Minister, you have like three or four minutes to solve the rest of the world's problems. (Laughter) You decide which one you want to give. I mean, hopefully all, but it's up to you really. We want to stick to our time.

PRIME MINISTER LÖFVEN: Yes, Kemal, I think two of them was about the --

MR. DERVIŞ: Investment bank.

PRIME MINISTER LÖFVEN: -- investment bank, so I can answer both of them.

I saw that between 2010 and 2020, the amount of investments that are necessary in Asia is \$70,000 billion. And, of course, many companies and many countries want to be a part of those investments, so there's a huge interest. First everybody was hesitating. There is an interest. Sweden is definitely interested and we're looking into it. We haven't decided, but we're very close and we think we will be interested, as well, in doing that.

So, yes, TTIP. Yes, we think it is important to conclude during 2015 because if we do not, you know better than me, there will be a political situation in the United States that might make this impossible to conclude during 2016. We don't know, but that's the ambition anyway, 2015.

We do want to include social partners, both in general within the European Union, but also in the discussion about TTIP, and we are including the social partners. We think they're crucial in this discussion.

Regarding Palestine, well, we did recognize Palestine. We think it's time

to use another strategy because the one we have used so far has not been successful, to say the least. And we need to make these two parties less unequal -- underline less unequal -- but still it builds on a two-state solution, a negotiated two-state solution. We have all the conditions already decided, also, in the resolution, about the borders of 1967 and the refugee issues and all these issues that are built into that. So we stick to a two-state solution negotiated, but we want to change strategy and we can see now that many countries are discussing on the same line all over Europe. And hopefully -- hopefully -- we can get something started.

Thank you.

MR. DERVIŞ: All right. I think we have a tradition at Brookings to stick to time.

PRIME MINISTER LÖFVEN: Stick to time is a good tradition.

MR. DERVIŞ: Because I'm sure you have many other engagements. So many, many thanks. Let's give a round of applause. It was a wonderful hour.

PRIME MINISTER LÖFVEN: Thank you. (Applause)

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