

Peterson Institute – Washington DC, 1 May 2014

Speech by Carlo Calenda

Italian Vice Minister of Economic Development

Dear Ladies and Gentlemen –

We are glad to be here today in this great institution. Economic freedom is nurtured by research, and analyses that strengthen our choices. In turn, Economic growth goes hand in hand with democracy and liberalism. An important lesson to remember: not only democracy feeds economic prosperity through the range of freedoms it protects, but economic prosperity is crucial to supporting democracy.

I come from a country, Italy, whose economy has greatly suffered in the last 20 years, resulting in the lack of growth. Believe me, during this period our democracy has suffered too, as a consequence of reduced resources for our schools, our universities, more generally for those institutions that support our values.

This is why economic growth is a political imperative: not for greed nor for power, but to nurture our societies, to empower the freedom we all cherish.

We are thankful that the Peterson Institute and his president, Dr Posen, agreed to follow a common reflection path with us. I am persuaded that in these times of change we need to think through our economic policy choices. We need to examine opportunities and consequences in particular when international political economy is at stake, for its lasting effects.

As I said earlier, the Italian economy has suffered from stagnation in the last twenty years, that is, even before the international financial crisis hit our economic systems. Some argue that this stagnation is to be blamed on globalization. In fact, processes of international integration make the perfect scapegoat in hard times. Increased pressures on our welfare state systems which were forced to retrench, combined with ever-growing international competition, has been, and currently is feeding worrying populisms both in Europe and on this side of the Atlantic.

For the coming European elections, I expect that in many countries – and most likely in Italy, France, and the UK – the number of people who will choose not to vote, plus the number of people who will choose an anti-European populist party will exceed half of the population.

These are signs of an illness of our democracies with deep economic roots, roots in the sluggish growth, in the sense of disenfranchise from a global economy whose benefits are too often hard to grasp for the laymen, as well as for the small and medium firm, for the family business that suffers, for the family savings that get thinner by the day.

I think these are real issues we are facing, issues that can mark an historical juncture. What I mean is that the way we will address and respond, or not respond, to such issues will mark the next phase of our democracies.

My persuasion is that we need to offer a bold answer. My persuasion is that a deep and ambitious TTIP treaty is our best chance to set a new phase of the international economic order where both the values of democracy and of increasingly open economy can be supported.

Let me take a step back, and try and offer a wider perspective.

A negative reaction to globalization is often more justifiable and understandable than we like to think. From a national, subnational and local viewpoint a positive narrative is all too hard to find. More effort can be used to explain, and we have to do a better job in detailing our choices. However, we must now pursue choices that can feed a positive narrative based on positive facts.

I think we should see and talk about globalization as a great, long-term project carried out by advanced industrial countries, which by and large overlap with the two sides of the Atlantic. The first phase of the project can be likened to a large investment: through open trade, we supported the inclusion in the world economy of low-income countries. Our support was both in cash and kind, so to speak: new economic protagonists conquered large shares of our markets.

Now that many countries have entered the global economic network, it is time to look back at our original investment, and seek for dividends, keeping in mind three great dangers we face. First: we might think that the values of liberalism have prevailed, yet “the end of history” seems not in sight, we need to keep up our vigilance on the core values of our societies.

Second, we must prevent and countervail the protectionist pushes that are visible in a good number of emerging countries. We all know that non-tariff barriers are mushrooming at a rate of thousands per year: it is the understandable yet unacceptable temptation by countries that have gone through their “first” industrialization, so to speak.

Third, we need to set our international political economy to serve the quest of higher growth rates at home, both in the US and in Europe.

In order to increase our chances of achieving these aims we need a deep and ambitious TTIP to be reached as soon as possible. This conviction is not moved by rhetoric – although we all know that rhetoric is also important.

Let me take advantage of being hosted by a research centre of excellence, and let me show a piece of research data.

As an example, I am comparing data from the US with data from perhaps the strongest representative of manufacturing economies in the EU: Germany. Indeed, these data can be considered exemplary of a broader comparison with manufacturing-based continental EU economies.

The figure compares the US and Germany with regards to their respective ability to innovate. We are here talking about two absolute world stars when innovation volumes are considered. Despite the sheer quantity of patents that the US and Germany file in each given year, their relative innovation advantage, that is, the sectors in which they excel relative to the other country, it is remarkably different and complementary.

The US are world leaders in innovation in computer technology, medical technology, pharmaceutical, digital technology, more generally those sectors in which innovation occurs in radical leaps. The manufacturing-based EU economies, excel in innovation-on-the-job, or “incremental” innovation which characterizes sectors such as transport, mechanical elements, engines, electrical machineries, and so on.

This graph is focused on patent data rather than trade in order to measure specialization, because patents are not influenced by relative prices and other relatively volatile variables, but show the “purest” features of our economies. They show our respective institutional and cultural capacity to innovate, hence grow.

These data say many things, and we could discuss for a long time their implications. I wish however to focus on two aspects in particular. First, our economies are incredibly complementary, we have different abilities, possess different specialization that feed and reinforce one another. Hence, a deeper integration of these two economies does not simply increase competition, it increases the ability of scaling-up our relative strengths.

The second thing these data tell us – if you look at the increasing differentials between the mid 1980s and the mid 2000s – is that our relative specialization in innovation increased over time. In other words, as globalization proceeds, countries do not lose their characteristics in favor of a non-existent textbook-like market economy.

Quite the contrary, each country becomes even more recognizable. In a way, the more our respective economies know one another, the more they get to know themselves, the better they get at doing what they are good at.

Now, take these data as a background, and add to them two economic blocs that make up nearly half of global GDP, only two main currencies to deal with, close to a billion relatively wealthy and educated people, 33% of world trade in goods, and 42% of world trade in services.

If we can bring this much under one single regulatory umbrella for trade and investments, we will have given a new governance center to the global economy, with political, economic and cultural consequences that will spill over well beyond our borders.

It is relatively straightforward to foresee three main consequences to this positive scenario. First, with such a powerful centre of economic gravity, current protectionist tendencies will be dramatically weakened. Try and remember Bali: up until September 2013 the WTO package seemed a mirage to everyone. Eventually, however, the deal occurred and multilateralism remains a solid framework of dialogue and concrete, albeit slow, progress.

That success was made possible by the de-coupling of emerging powers, with China playing a key role to push towards an agreement. In turn, such a de-coupling was made possible by the determination and leadership of both the US and the EU who made clear that the end of WTO would have not meant the end of increasingly free trade.

We made clear that FTAs would have proceeded no matter what happened in Bali, and when the risk of being sidelined materialized, most emerging countries pushed for a successful deal. A strong and determined Atlantic bloc can thus act as a catalyst for further integration and openness, and therefore preventing protectionist tendencies.

The second outcome of a wide and ambitious TTIP would have to do, plain and simple, with the positive effects on our economies. Lets set aside for a moment the unanimous impact studies forecasting increased trade and incomes.

Those study certainly underestimate the dynamic effects that such a deal would bring about. Investing in the EU or US would be immediately more profitable than it is now. Reducing regulatory barriers would open up opportunities for all sorts of new ventures, for start-ups in high-tech and for small and medium enterprises in traditional manufacturing sectors; it would increase further the returns of skills, political stability, rule of law: it would push SMEs and large firms to expand their activities.

A wide and ambitious TTIP would not increase races to the bottom, quite the opposite: it would stimulate up-scaling, it would push standards to a higher level.

Third, and perhaps even more importantly, a large democratic and stable bloc acting as a centripetal force towards economic openness would discourage authoritarianism, on its borders and beyond.

In short, I mentioned already, a deep and ambitious TTIP would bring back the governance of globalization there where it started, in the cradle of liberal and democratic political economies.

In the second half of 2014 Italy will hold the EU Presidency. We will continue to push, with even more vigor, for comprehensive and effective negotiations. The next few months will mark an important political transition in Europe: a new Parliament and a new Commission will take office, we will need to gain increased momentum for the long term project of restoring the centrality of the Atlantic bloc.

TTIP is not a simple piece of incremental trade. Our economies are already integrated, and we share deep cultural and political traits. We must consider the TTIP as the project that brings integration to a new level. Hence, we should not consider it as an endeavor with a beginning and an end. Instead, we should consider it as a living agreement.

I came here in the US with high representatives of the Italian industries, and we engaged in an intense dialogue with representatives from the US industries.

During our frank conversations we have witnessed a very high degree of alignment between the two business communities. In many sectors, certainly on tariffs, and on a number of market-access topics, we are extremely close. I mean, our business communities are close, and can help us reaching very soon an ambitious agreement on many issues.

On other issues, GMOs or GIs, just to name two of them, more discussion will be needed. I think that, on certain topics, cultural reasons more than opposite economic interests require longer negotiations before an agreement can be reached. Other issues, such as energy or audio-visual industry, are currently out of the table, but they should be at a certain point put back on the table, and addressed.

This is why the TTIP should stay as a living agreement, with the ambition of an ever wider and deeper economic integration. At the same time, we should also aim at reaching tangible results as soon as bundles of agreed topics can be identified, with swift implementation.

This first step will keep momentum high, will deliver immediate benefits for our economies, and will push back any doubt that the relationship between America and Europe will be the strong protagonist of this new phase of globalization we are entering in.

The choices we will be making in the next two years will be key to our next twenty years. Let's make the right ones.

Thank you.