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Open Markets for Trade and Investment

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1. Are open markets under threat

2. How can you prevent security concerns being used a cloak for protectionism?

3. How can you best communicate the benefits of open markets for trade and investment?

I feel like I have stepped back in time that I am in a debate circa 1990's. These questions suggest ***business as usual*** and more of it!

Have their been no lessons learned from the financial collapse of global corporations in the early years of this decade, the knowledge that the Washington consensus has failed let alone the current financial crisis and the subsequent credit crunch that has engulfed us all?

The UN called for a reorientation of globalization in 2005. The challenge laid down was for ***fair globalisation*** based on full employment and decent work. This requires decent capitalism!

Ah just another trade union protectionist I hear. Au Contraire, I want the global economy to work. I remind business colleagues regularly that I am their best friend. I want their businesses to be successful and sustainable because it means secure jobs and good incomes for workers. I want robust domestic and global markets that generate jobs, decent jobs, for all the world's workers where fundamental rights and collective bargaining is respected; respected both as a right and as a global good in distributional terms and as a stimulus for continuous growth. I am also an advocate of rights based labour mobility but will fight discrimination and exploitation at every turn. Finally I understand as well as any business the ambitions for investment returns for, with other unions leaders around the world we feel a deep responsibility for the trillions of dollars in workers capital (pension funds) that play a huge role in the global economy - the only possible difference is that we believe that solid returns can be achieved from responsible investment and we reject a regulatory race to the bottom.

If you consider the TUAC statement to this forum then you will see that trade unions have much to contribute to global solutions.

If trade and investment have delivered an expanded global economy, enabled rapid transfer of capital, astonishing technology transfer, global skills mobility and a communications revolution to list just a few outcomes why are open markets under threat?

Let's start with a recognition that the distributional effects are a serious threat. According to the UNDP, of the 73 countries worldwide for which figures are available, 53 countries - comprising more than 80% of the world's population - have recorded an increase in inequality over the past two decades. Within the OECD countries the "gini coefficient" measuring inequality between households net income has risen by 6% in the last two decades. The increase in inequality was particularly strong in the United Kingdom and the United States. In the United Kingdom, the gini coefficient of net disposable income rose from 27 in the late 1970's to 34 in the late 1990's, showing that inequality increased by almost 30%. In the United States, which has long faced a relatively high inequality it has increased even further. Canada, Japan, many other countries - the questions for working families are common across north and south; who is benefiting?

Notwithstanding the wealth in my own country there is a two speed economy that is unsettling working Australians. Those in the path of the resources boom or CEO's believing that obscene salary levels are justified in a market they themselves have created are doing very well. However with profits at a thirty year high relative to wages, a business community still enamored of the previous governments political downfall, being denial of CLS and collective bargaining in particular, and with 75% of households struggling to pay their bills post the US sub-prime crisis: the mix of spiraling cost pressures due to global inflationary pressures combined with the capacity constraints of a neglect of investment in skills and infrastructure - all driving up interest rates, fuel, food and other costs there are certainly serious questions we all must face.

Stephen King from ***The Independent*** (may 6 2008) puts it accurately, "political leaders have, to date done little to discuss what needs to be achieved in the form of income redistribution to ensure the losers from globalization are compensated. This is partly because our leaders don't want to admit that globalization may have unpleasant side effects. Their refusal to be candid, however, simply increases levels of distrust. By doing so, globlisation becomes even more vulnerable"

This is even more enhanced by energy and food prices and indeed food scarcity for increasing numbers. The role of hedge funds in driving up the cost of basic staples cannot simply be overlooked when the risk is famine, failed states, massive increases in migration and more armed conflict. We can and must do better.

Thus any question of promoting benefits is extraordinarily cynical unless we also face the costs and the risks of trade and investment on the basis of evidence. To build confidence genuine efforts to build global governance and drive distributional effects that are dramatically more equitable must be embraced by all of us.

For wisdom from serious global players you need look no further that the European debate caused by the now infamous letter to the EU President from Jacques Delors, Michael Rocard, Paul Rasmussen et al. They say "free markets cannot ignore social morals. Decent capitalism needs effective public policy. Profit seeking s the essence of a market economy. But when everything is for sale, social cohesion melts and the system breaks down"

They have the courage to state that which we all know. "Rising income inequality has gone in tandem with an ever growing financial sector. ...Financial assets now represent 15 times the total GDP of all countries. The accumulated debt of households, financial and non financial companies and of the American public authorities amounts to more than three times the US GDP, twice the level in 1929. The financial world has accumulated a massive amount of fictitious capital, with very little improvement for humanity and the environment"

" The current financial crisis is no accident. It was not ... impossible to predict. The crisis is a failure of poor or unregulated markets and shows us once more that the financial market is not capable of self-regulation"

Likewise, a champion for globalization, Larry Summers (FT May 5,2008) "suggests that opposition to trade agreements, and economic internationalism more generally, reflected a growing recognition by workers that what is good for the global economy and its business champions was not necessarily good for them, and there were reasonable grounds for that belief'.

So as for protectionism let's get past the concept and start discussing "effective regulation", a debate that should include all stakeholders.

Investment should be about `freedom to invest' but on the basis of effective regulation of financial markets including private equity and sovereign wealth funds. Surely the world can agree on a core set of values, transparency requirements and monitoring arrangements. Reform of the IMF would be a good start but the OECD has a major role to play and should put itself , with support from member nations, at the at the centre of advising multi-lateral institutions on essential global governance measures.

As a recent columnist in our own national Newspaper, The Australian, Henry Kissinger (May 29, 2008) stated - Moral Hazards need to be faced. There is an inherent contradiction when financial entities are permitted to reap extraordinary profits and manage vast assets and then, when conditions change, are declared too large to be permitted to fail, requiring taxpayer bailouts. Financial institutions, whether investment banks or hedge funds, need oversight in a way that protects taxpayer's interests.

Likewise people themselves must again be central to the stability equation and developing or strengthening effective social security systems and ensuring the application of labour market protection to all workers in not just a social necessity, it is essential to market functioning. Indeed nationally relevant minimum wages and collective bargaining must be recognized as global good in the essential challenge of more equitable distribution. We would argue also that equity audits in all relevant areas of government policy will enable both understanding and action.

The behavior of multi-national enterprises and the management of their global supply chains are critical to raising standards. We are all interrelated in global supply chains and thus the mandate from the G8 Heiligendamn Summit for the OECD to develop its work on corporate responsibility and accountability is critical. The G8 Dresden Labour Ministers Conference indeed stressed that "it is the primary task of of governments to implement and improve human rights and labour standards". In partnership with the ILO, it is again apparent that the OECD is well placed to assist in the central challenges.

Labour mobility is also a critical area for urgent action. I suspect that Bhagwati will argue migration is central to the debate and so it is but mode 4 or trade in people as opposed to the architecture for right based international management of mobility inherently avoids the real debate to expand regular migration channels and to guarantee all human beings rights and equal treatment.

There is too much to tackle in a panel discussion where we must first debate the questions to ask but failure to acknowledge the downside of freer trade is not only unethical but shortsighted if we want to build a robust and sustainable global economy.