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Introduction: Welcome Address

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Welcome Address by

MICHAEL SCHAEFER

Ambassador (ret.); Chairman of the Board of Directors, BMW Foundation Herbert Quandt, Berlin and Munich

It is the first time that I am taking part in the Summit, and I would like to take this opportunity to express my sincere thanks to my predecessor, Jürgen Chrobog, for his excellent work as chairman of the BMW Foundation. The presence of so many distinguished participants is an impressive indication that, during over a decade, the Munich Economic Summit has grown into a successful and highly attuned European economic dialogue forum. Together with our long-time partner, the CESifo Group, we will strive to honour this commitment in the future. Professor Sinn and I have agreed that we will continue to further develop the Munich Economic Summit into a global forum.

Rarely has the Summit taken place at a more challenging time for Europe. Our governments, businesses and societies are confronted with two fundamental crises: a structural and a strategic crisis. Despite positive signs of recovery, the sovereign debt crisis in some European countries has not yet been overcome. The structural deficiencies that the crisis has revealed in the Eurozone make it necessary for governments to set a clear course for the future, and to undertake fundamental reforms. We have the choice between increased economic and financial integration, and a return to the nation-state. In my opinion, there is no in-between solution. After spending six years in Asia, it is my conviction that only a more politically integrated union will be capable of acting and thriving in a multipolar world.

Strategically, the EU presently faces a no less elementary challenge: Russia's President Putin has decided to break the fundamental post-World War II consensus – i.e. that boundaries in Europe should no longer be redrawn by force. This decision not only violates the

territorial integrity and political sovereignty of the Ukraine, but also jeopardizes the stability of the European continent. We must not be mere onlookers in this process. The EU has to credibly demonstrate its resolve to jointly defend the common values that it has come to share in recent decades. These values have served as a solid foundation for the longest period of peace and prosperity Europe has ever known. If necessary, the EU has to defend these values by taking appropriate political and economic measures. Russia is, and remains, an important neighbour with whom we want to maintain close and friendly relations, but not at any price. We have to be aware that this can result in heavy economic losses on both sides. However, a firm stance on the part of the EU is the only way to restore a stable relationship in the long term.

It is against this background that we will discuss, over the next two days, key developments in economic policy that will very much define our European interests in the decades to come. We will take a look at the transatlantic partnership – which remains central for Europe, but which is no longer taken as a given by the larger public after a decade marked by crises in confidence ranging from Iraq and Guantanamo to the NSA affair. We will need to discuss how the EU will position itself *vis-à-vis* the new global economic powers of China, Brazil, and India, as well as other emerging economies in Asia, Africa, and Latin America.

Essentially, the key question is: will we manage to learn from the experiences of the 20th century and replace the logic of power and hegemony – a classic zero-sum game – with a logic of cooperation and win-win situations? Or, to put it differently: will we be able to replace the military-strategic balance of terror with a system of economic synergies that also gives structural expression to the already dynamic interdependence of our economies? These questions are equally important for all of us – no matter what part of the world we come from. This is why I am delighted to welcome representatives from a total of 20 nations to this year's Summit, including representatives from the new emerging economies.



At the heart of the discussions will be the topic of 'Free Trade and Prosperity'. The three panels will not only deal with the pros and cons of agreements – such as TTIP – which are of major importance to the EU. They will also examine the question of whether and to what extent the observable trend towards more and more bilateral, regional or inter-regional trade agreements will strengthen or weaken the international trade order espoused by the WTO.

For us Europeans, the question is how we can safeguard our interests in a progressively complex global market; a market that is increasingly defined not only by the United States, but also by the new Asian economic powers, especially China, which is about to overtake the United States to become the world's biggest economic power in absolute terms. The question is not so much whether and how to stop the trend towards a multitude of competing preferential trade agreements. Instead it is a matter of whether we will succeed in building an inclusive international trade system that, by means of free trade, ensures fair conditions for all regions and players alike. Nobody can be more interested in this than Germany, whose economy is dependent on export and foreign markets.

During his visit to Berlin two weeks ago, EU Commissioner Karel De Gucht rightly pointed out that the balance of the world economy has already shifted. The United States and Europe are already facing fundamental challenges to their economic competitiveness to which we have to find solutions as soon as possible. Will we continue to rely on a system that is determined by us, the transatlantic economies as the biggest economic space, and accept the fact that others – especially new economic powers like China – feel excluded? Or do we see our trade and investment relations as an integral part of a global trade system that is open to all? I am convinced that we either need to define convergences and agree on as many global standards and norms as possible, or we run the risk of erecting new walls and provoking the formation of new economic blocs. Surely, the latter is in nobody's interest.

This, of course, is easier said than done. The experiences of the Doha Round, which has failed to deliver results for over a decade, give rise to scepticism. While some celebrate the Bali agreement that was reached in December 2013 as a breakthrough for multilateral trade liberalization and an end to the stagnation of

the Doha Round, critics see the agreement as a largely symbolic gesture. They point out that the trend towards undermining the world trade system through preferential agreements continues unabated. In fact, there are now some 400 such agreements. In the last 15 years alone, the United States has concluded no less than 36 free trade agreements, while Europe has signed 14 FTAs. Is this an indication that the industrial nations are increasingly losing interest in multi-lateral solutions?

The United States and Europe are currently preparing for the fifth round of negotiations for TTIP, the most comprehensive transatlantic free trade agreement ever. According to a study by the Ifo Institute, TTIP promises to generate 160,000 new jobs, as well as economic growth of up to 4 percent in Germany alone. Similarly positive trends are expected for the rest of the EU and the United States. And yet there is scepticism on both sides of the Atlantic. Some economic sectors – such as the automotive and chemical industries – anticipate major advantages from the large-scale reduction or removal of tariff barriers and the harmonization of standards. Yet critics fear that high standards in sectors such as food or health care will be dismantled; or that core principles of environmental and climate policy will be watered down. Numerous organisations complain about the lack of transparency of the negotiation process. Our discussions should try to generate a clearer picture of the anticipated advantages and disadvantages of TTIP. But it is equally essential to ask whether the conclusion of the Transatlantic Trade and Investment Partnership will ultimately strengthen or weaken the global trade system. I am sure we all agree: TTIP must not become an exclusive trade policy regime resulting in a transatlantic economic fortress.

This is equally true for TPP, the Trans-Pacific Partnership, which the United States is currently negotiating in parallel with Japan and other East Asian economic powers. But we must be aware that both processes are being perceived by some as producing exclusive trade regimes, as important players such as China, Brazil, or India are absent from both. This may trigger adverse reactions from the BRICS, which cannot be in our interest. Regional free trade agreements should thus be systems that are open to new members and that, through the harmonization of standards and the removal of tariffs, create incentives to liberalize not just bilateral trade, but to broaden the international trade regime as a whole. The WTO could play an

important role in mending these regional arrangements, and converging them into a global system with the highest possible standards shared by all. Only then will TTIP, TTP and other agreements be what they should be: namely, drivers of a new dynamic and fair world trade system.

I hope that our panel discussions today and tomorrow will provide us with answers to these complex questions. I would therefore like to ask you to contribute actively to our discussions with your expertise, your experience, as well as your criticism. Together with Professor Sinn, whom I would like to thank most cordially for his close cooperation, I wish you two inspiring and rewarding conference days.

Professor Sinn, the floor is yours.