

Conference *Power shifts in a changing world order*



**Eerste
Kamer** der Staten-Generaal

AIV — **C** — **WRR**

Power shifts in a changing world order

*The role of the European Union
and the position of the Netherlands*

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Foreword

The first decade of the 21st century marked the beginning of a new era. Power shifts are occurring worldwide. New economic powers arise in Asia and South America and new non-state actors are increasingly important. On a global stage we are confronted with new crises: climate change, energy scarcity, terrorism and security risks, poverty and exclusion, budgetary deficits. The global developments are a challenge for the European Union and the Netherlands.

The agenda of the Dutch Senate is characterized by a strong European and international orientation. As a 'chambre de réflexion' the Senate regularly discusses long term developments and visions to the future. In this tradition it took the initiative to organise an international conference on the matter of power shifts in a changing world order. The initiative resulted in a unique cooperation between four players in the Dutch arena of politics, policy and science. The Dutch Senate, the Scientific Council for Government Policy (WRR), the Advisory Council on International Affairs (AIV) and the Netherlands Institute of International Relations Clingendael combined their different backgrounds and areas of special interest to guarantee an interdisciplinary approach to the subject of power shifts.

The aim of this conference was to get a clearer picture of the consequences of the shifts of power taking place in the world. Points of view of the US and China have been discussed, as well as current issues such as global economic imbalances and scarcity of resources. We look back at a successful conference with a lively debate on the transformations in a globalising world and the way Europe and the Netherlands can best position themselves in this changing global arena.

René van der Linden,
President of the Dutch Senate

André Knottnerus,
Chair of the Scientific Council for Government Policy (WRR)

Frits Korthals Altes,
Chair of the Advisory Council on International Affairs (AIV)

Jaap de Zwaan,
Director of the Netherlands Institute of International Relations Clingendael

Programme

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| 9.30 hrs | Registration, coffee and tea |
| 9.50 – 10.00 hrs | Introduction by René van der Linden |
| 10.00 – 12.15 hrs | <p>Morning plenary session</p> <p>Chair: René van der Linden</p> <p>Speakers: Wei-Wei Zhang
Charles Kupchan
Elmar Brok
Jan Peter Balkenende</p> <p>Discussion</p> |
| 12.15 – 13.30 hrs | Lunch |
| 13.30 – 15.30 hrs | <p>Afternoon thematic sessions</p> <p>Session A: Global economic (im)balances</p> <p>Chair: Jan Rood
Speaker: Age Bakker
Discussant: Carlo Trojan</p> <p>Discussion</p> <p>Session B: Security and scarcity of resources</p> <p>Chair: André Knottnerus
Speaker: Bernice Lee
Discussant: Fred de Graaf</p> <p>Discussion</p> |



Power shifts in a changing world order

15.30 – 16.00 hrs Coffee/tea break with musical intermezzo

16.00 – 16.45 hrs Conclusions
Chair: Frits Korthals Altes
Speakers: Uri Rosenthal
 Jaap de Zwaan

16.45 hrs Drinks

Opening Address

René van der Linden, President of the Senate of the Netherlands

Ladies and gentlemen,

It is a great pleasure to open this conference and to welcome you all in this plenary hall of the Senate of the Netherlands. I especially welcome our reputed key note speakers and I thank them in advance for coming to the Netherlands to contribute to this conference.

I extend my welcome to all of you also on behalf of our partners in organising this conference: the Scientific Council for Government Policy, the Advisory Council on International Affairs and the Netherlands Institute of International Relations Clingendael.

For the Dutch Senate initiating a conference of this nature is logical given its special role in the Dutch constitutional arena. In the Senate the agenda is tightly interwoven with international issues. We focus on long-term developments; visions to the future and a comprehensive approach are important aspects of our parliamentary work.

The first decade of the 21st century recently came to an end. It was characterised by an international financial crisis without precedent and a rapid shift in power relations in the world. In the 20th century the core of economic power was in Western Europe and North America. In recent years we have seen a remarkable expansion of economic powers in Asia and South America. The movements that take place have enormous repercussions to the rest of the world, including Europe and the Netherlands. The signals are clear. China replaced Germany in 2010 as the largest exporter in the world. The combined budgets for research and development of China and India exceeded those of both the United States and Europe each. The sense of optimism in these countries is remarkable, as compared to the general feeling in Western Europe. While many in Europe are concerned about the sustainability of pensions, these countries invest heavily in education, science, and technology. Young people are eager for knowledge, innovation, and strongly future-driven. Of course, an utterly new development is what is happening now in several Arab

countries notably Egypt, where we see a very strong call for more democratic and social reforms. It is hard to estimate what the outcome of this historical change-over will be. What I seriously miss is a European position in this forceful process of reform.

In a globalising world we cannot take our position for granted. Globalisation is an opportunity, a chance, a challenge. The aim of this conference is to get a clearer picture of the consequences of the shifts of power taking place in the world for Europe and the Netherlands.

As a small nation the Netherlands has always been very internationally oriented and in favour of an open economy. Membership of the European Union with the open borders and the internal market has always been very beneficial to our country. Nevertheless, in this age we share with other countries a certain hesitation about Europe, while the recent crisis has demonstrated that we need more Europe in the financial economic domain instead of less to effectively solve it. At this very moment the European government leaders meet to come to a total approach of the debt crisis, including the possibility of sanctions against member states that do not meet their commitments. The German Chancellor Angela Merkel spoke of a 'pact to make Europe more competitive'.

With this conference we want to shed a light on the situation of rapid change in which we find ourselves. In focussing from the outside to the inside, we will start from a broad global viewpoint and zoom into the European situation, with a special focus on the position of the Netherlands. We will do this by kicking off our morning session with the speeches of Professor Wei-Wei Zhang and Professor Charles Kupchan on current shifts in power, respectively from the Chinese situation and the point of view from the United States. Our former prime minister, Professor Jan Peter Balkenende, will thereafter reflect on the Dutch situation within these power shifts in the world and Elmar Brok, Member of the European Parliament from Germany, will briefly comment from a European perspective.

In doing so, we will follow an approach as advocated in the report of the Scientific Council (WRR), which was sent to you together with the invitation

for today's conference. The report from the WRR contributes to a new orientation towards the outside world and serves as a good foundation for the discussion of today's conference. I expect that we will have a very fruitful and thought-provoking conference. Let me now to introduce our first two key note speakers of today.

Mr. Wei-Wei Zhang is Professor at the Geneva School of Diplomacy and International Relations, Switzerland, and senior research fellow at the Centre for Asian Studies, Geneva. He is also guest Professor at Fudan and Tsinghua Universities, and a senior fellow at the Equinox (Chunqiu) Institute in China. He will speak to us on 'the Anatomy of a Miracle: the China Model and its Implications'.

Our second key note speaker of today is Mr. Charles Kupchan. Charles Kupchan is an Associate Professor of International Relations in the School of Foreign Service and Government Department at Georgetown University. He is also a Senior Fellow and Director of Europe Studies at the Council on Foreign Relations. Mr. Kupchan was Director for European Affairs on the National Security Council during the first Clinton administration.

The Allure of the Chinese model

**Address by Professor Wei-Wei Zhang,
Professor at Geneva School of Diplomacy and International Relations**



Wei-Wei Zhang

Mr. **Zhang**: Thank you very much, Mr. President! First of all I wish to thank you for this kind invitation and for this great honour to speak before such a distinguished audience in this magnificent plenary hall.

As we all know, China or the rise of China remains controversial in Europe or in the West in general, for all kinds of reasons. Indeed, over the past twenty or so years the Chinese state was often – and in many ways still is – portrayed in Western media as a dichotomy of the repressive regime clinging to power and a society led by pro-democracy dissidents bordering on rebellion. Some Europeans, for instance in Oslo, still view China as an enlarged East Germany or another Belarus, 150 times bigger, awaiting the coloured revolution. This perception has led many China watchers in Europe and in the United States to have confidently crystal-balled China's pessimistic future. The Tiananmen tragedy of 1998 meant the regime would collapse. The disintegration of the Soviet Union, China were to follow suit. Deng Xiaoping's death, China would fall apart. Hong Kong's return to China, its future would be doomed. The Asian financial crisis, China would be the next victim.

The outbreaks of SARS, China's Chernobyl. This 2008 financial tsunami, China would be in chaos.

Yet surprisingly, all these forecasts turned out to be wrong. It is not that China has collapsed. Rather, all the pessimistic forecasts about China's collapse to my mind have collapsed. This unimpressive track record of crystal-balling China reminds us of the need to look at this huge and complex country in a more objective way. Perhaps, with an approach adopted by the great Dutch philosopher Spinoza in the 17th century or his German contemporary philosopher Leibniz, i.e. we need to focus on how the Chinese developed what they called 'natural religion' or 'natural approach' or a secular application of ethics and politics to social and economic governance. If we are free from ideological hang-ups we may come to see what has happened over the past three decades in China is arguably the greatest economic and social revolution in human history. About 400 million people have been lifted out of poverty with all its implications within China and beyond.

China has in fact performed better than all other developing countries combined over the past three decades because 70% of the world's poverty eradication has occurred in China. China has performed better than all transitional economies combined, as the Chinese economy has increased about 18-fold over the past three decades, while Eastern Europe as a whole only roughly one fold, albeit from a higher starting point.

China has also performed better than many developed countries. The "developed regions" of China, with roughly 300 million people – the size of the US population – today in many ways can match the developed countries in Southern Europe in overall prosperity. Shanghai has arguably surpassed New York in many ways, if I may use the analogy of hardware and software: in terms of hardware, Shanghai has better airports, subways, bullet trains, shopping facilities, and city skylines than New York. In terms of software we have longer life expectancy and much safer streets, and child mortality is lower than in New York. Of course, China has its share of the problems, some of which are very serious but its overall success is beyond doubt.

How to explain this? Some claim this is due to foreign direct investments. But Eastern Europe has received far more FDI in per capita terms than China. Some claim it is due to China's cheap labour but India and many developing countries offer cheaper labour. Some claim that it is due to an authoritarian government but there are authoritarian governments everywhere: in Asia, Africa, Latin America, in Egypt, Tunisia, and Algeria. But none of them have accomplished what China has accomplished.

If none of these explanations can explain China's success we should be encouraged to think outside the box. My own humble explanation is the buzz word 'model', or more precisely 'the China model', which is also the topic I will address today. But first of all, I would like to say a few words about the nature of China as a state in order to provide a context for our discussions here.

China is not an enlarged East Germany or Belarus, nor is China another ordinary state. To my mind, China is a civilisational state and the world's only civilisational state. China is the only country in the world with a history of unified state for over 2000 years. It is the only country in the world with a continuous civilisation lasting over 5000 years. The Chinese are the indigenous people to their own land. An example of this is the Chinese language: a well educated higher school student – not college student – can read Confucius' texts written 2500 ago, a sign of the continuity of Chinese cultural lineage.

China is the only country which is, you may call, an amalgamation of an ancient civilisation and a huge model state. Another analogy, but not very accurate, could be something like the ancient Roman empire continuing to this day as a unified modern state, with a centralised government, a modern economy, time-honoured traditions and cultures, and a huge population speaking one language called Latin. This kind of country is bound to be different in several significant ways. China, to my mind, is an amalgamation of four factors, i.e. if I may use the adjective 'super': there are a 'super' large population, a super-sized territory, a 'super' long history, and a super-rich culture.

With these four 'supers' China's rise is bound to affect other parts of the world. China has a population larger than the total population of Europe of 27, the United States, Russia, and Japan combined and more. Today is actually the second day of China's Spring Festival, the Chinese New Year. We expect there will be about 2.5 billion persons' trips across China's vast transportation system, which means that you move the entire population of Europe, Russia, Japan, the United States, and Africa from one place to another within one month! This is the scale of the country and the scale of the challenges the country is faced with and also the kind of opportunities the country provides.

China has a super-sized landscape, a continent by itself, with all its unimaginable regional diversities. China has 'super'-entrenched historical traditions in everything you can think of, often of thousands of years, ranging from political governance, state craft to economics, philosophy, medicine, military strategy, and way of life for ordinary people.

China has a super-rich culture, including one of the world's most sophisticated literatures and architectures. Perhaps there is no better example to illustrate this richness than the Chinese food: there are eight main schools of cuisine in China and countless sub-schools. Each of the eight main schools is arguably richer than the French cuisine in terms of contents and diversities. So, a civilisational state is a product of hundreds of states amalgamated together over thousands of years of history. The four 'supers' I have just described have shaped and will continue to shape China's future trajectory of development. With this large picture in mind let me now turn to the China model. For me, this model contains at least eight features.

First, its guiding philosophy is called 'seeking truth from facts'. This is an ancient Chinese concept revived by the late leader Deng Xiaoping after the failure of the utopian Cultural Revolution. Deng Xiaoping believed that facts rather than ideological dogmas, whether from the East or from the West, should serve as the ultimate criteria for establishing truth. From examining the facts he concluded that neither the Soviet communist model nor the Western liberal democracy model really worked for a large developing country or for developing countries in general in terms of achieving modernisation. Hence, China decided in 1978 to explore its own path of development and to adopt a pragmatic 'trial and error'-based approach for its massive modernisation programme. This is the philosophical underpinning for the China model.

Second, putting people's livelihood first. This is again a very traditional concept of political governance in China. In this context Deng Xiaoping prioritised poverty eradication as China's number one task and pursued a down to earth strategy to wipe out poverty. China's reforms started first in the countryside as most Chinese then lived in the countryside. The success of the rural reform set the Chinese economy moving and created a positive chain reaction leading to the rise of millions of small and medium-sized enterprises, which soon accounted for more than half of China's total industrial output, thus paving the way for the rapid expansion of China's manufacturing industries and foreign trade. China is arguably correcting a neglect in the range of human rights, advocated by the West, which tends to focus exclusively on civil and political rights. This feature of putting people's livelihood first will, I think, have long-term implications for half of the world's population that still live in poverty.

Third, stability as a pre-condition for development. As a civilisational state, its ethnic, religious, linguistic, and regional diversity is arguably among the highest in the world. Hence, this condition has shaped what may be called 'a collective psyche' of the Chinese people. Most Chinese revere stability and fear 'luàn', the Chinese word for chaos. Deng Xiaoping's penchant for stability derived in part from his understanding of China's history. If we could have a

quick summary of China's modern history: roughly from 1840 – when the opium war broke out between China and Britain – up to the reform era starting in 1978, the longest period of continuous stability in China was no longer than eight or nine years. So, China's modernising process was constantly disrupted by foreign aggressions, civil wars, peasants' uprisings, ideological frenzy and other kinds of chaos. The past three decades mark the first time that the Chinese have enjoyed such a continuous stability and they have created an economic miracle. With another two or three decades of stability, China will create perhaps a greater miracle.

Fourth, gradual reform. Given the size and complexity of the country Deng Xiaoping set out a strategy that is often described as 'crossing the river by feeling for stepping stones'. He encouraged experiments for all major reform initiatives as exemplified by China's special economic zones, where new ideas were tested such as land sale, high-tech joint ventures, and export-oriented economy. Only when new initiatives are shown to work they are extended nationwide. China has rejected shock therapy and worked through its imperfect existing institutions while gradually reforming them to serve modernisation. This cautious approach has enabled China to maintain a much needed political stability and to avoid paralysing failures, as was the case with the former Soviet Union and ex-Yugoslavia.

Fifth, correct sequencing and priorities. In line with the gradual approach China's reform has demonstrated a clear pattern of change. Rural reforms first, urban ones second, changes in coastal areas first and inland second, economic reforms first and political ones second, easy reforms first and more difficult ones second. Underpinning this approach is China's philosophical tradition of holistic thinking. I was thinking of Deng Xiaoping. When he came to power his idea was to have a 70-years strategy, till the middle of the 21st century, i.e. by 2050, China should become a full fledged developed country. This strategy is still being pursued by the Chinese government to this day. This kind of holistic thinking contrasts sharply with the populist short-term politics so prevalent in much of the world today including, unfortunately, Europe.

Sixth, a mixed economy. China has tried to combine the strength of the invisible hand of the market force with the visible hand of the state intervention, as to better prevent market failures. China's economic system is called 'socialist market economy'. When the market force is released by China's economic change the state has done its utmost to ensure a macro-stability. The state steered the country out of harm's way, in both the Asian financial crisis and the current financial tsunami.

Seventh, opening up to the outside world. With no messianic tradition of converting others China represents a very secular culture where learning from others is highly virtuous. China has retained its long tradition of selective cultural borrowing from the outside world, including drawing on useful elements from the neo-liberal Washington consensus such as its emphasis on entrepreneurship and international trade. But we learn from it selectively. We keep what we call 'policy space', China's own policy space. Opening up to international competition has allowed China to become one of the most competitive economies in the world.

Last but not least, an enlightened strong state. China's change has been led by an enlightened developmental state. The state is capable of shaping national consensus on the need for reform and modernisation and ensuring overall stability and pursuing hard, strategic objectives such as enforcing banking sector reforms, carrying out very hard state-owned enterprises reforms, and stimulating the economy against global downturn. This feature originates from China's Confucian tradition of 'a benevolent strong state', established on the basis of meritocracy at all levels. After all, China invented the civil servants examination system in the first century B.C.

I was joking with Professor Kupchan: if you want to become a member of the top 9 in China today – a member of the standing committee of the political bureau – you have to be twice a governor of province, which could be the size of Germany, and perform reasonably well. Each province could be the size of Germany, so it is by no means easy. You have this kind of meritocracy. I told him whatever problems we have with our system we are not going to choose someone as incompetent as George W. Bush. No, that will not happen! We have a minimum standard for choosing leaders.

China rejects the stereotypical dichotomy of democracy versus autocracy as we believe that fundamentally speaking the quality of a political system, including its legitimacy, has to be defined by its substance, that is good governance and tested by what it can deliver to its people and by the level of satisfaction the people feel, rather than by merely procedural justice. China emphasizes substance over procedures. Of course, this may be unique at this stage of development for China today, because Chinese believe that ultimately substance will evolve right procedures in light of China's own national conditions. China is now the world's largest laboratory for economic, social, and political change. China's success for economic reform may have actually set a pattern for China's future political change: a gradual, experimental, and accumulative approach in trying to assimilate whatever is good in Chinese and foreign ideas and practices. After more than one century of devastating wars and revolutions, after three decades of relatively successful economic reforms

most Chinese seem willing to continue with its own imperfect yet efficient model of development.

This model seems to blend reasonably well with China's own civilisation of several millennia, including twenty or so dynasties, seven of which lasted longer than the whole US history. China is going through its own industrial and social revolutions. Imperfections are abundant and the country is still faced with many challenges, such as fighting corruption, reducing regional gaps, and reducing gaps between rich and poor. But China is likely to continue to evolve along its own model rather than embracing other models. The China model may well become more influential internationally. While China's experience is largely indigenous and will be difficult to copy by other countries with different cultural traditions, certain Chinese ideas and practices, such as seeking truth from facts, putting people's livelihood first, a gradual and experimental approach, good governance versus bad governance being more important than 'democracy versus autocracy'. These ideas and practices may generate a broader international appeal.

As we are discussing here the power shifts in a changing world order I think the rise of China and the China model may mean something in this regard. The world order may be gradually shifting from what I call a 'vertical' order in which the West is above the rest in terms of political systems, wealth and ideas to something I call a more 'horizontal' order, in which there will be co-operation, mutual learning and perhaps benign competition between different ideas and systems. This is actually a more democratic order, at least from my point of view.

Before concluding my speech I would like to share an anecdote with you, which was related to me by a European philosopher, a friend of mine. He said: the great German philosopher Leibnitz came to The Hague one day in the 17th century to secretly meet with the famous Dutch philosopher Spinoza, who had been ex-communicated and very lonely, to discuss some heretic ideas, including China's secular, non-religious approach to political and economic governance –and this approach, to my mind, still underpins today's renaissance of China – it's said that after this meeting Leibnitz wrote a letter to one of his friends in which he said: I shall have to post a notice on my door, which reads 'Bureau of information for Chinese knowledge'. With this anecdote I do not advise the Dutch Senate to set up a Chinese bureau. By no means, as the Netherlands are well-known for its long tradition of sinology and China studies. But I do think that we will need to carry on the spirit of the European intellectual giants and their spirit of intellectual curiosity, openness and courage, which is also very much part of the admirable Dutch character, to learn about and even from other cultures,

civilisations, and ways of political and economic governance, however extraneous they may appear. With this, I believe, we shall be able to avoid ideology-driven misreading of this hugely important and complex country called China. We shall be able to enrich our collective wisdom in tackling the multiplying global challenges that we are faced with today, ranging from eradicating poverty to combating terrorism, to curbing climate change, and to preventing a clash of civilisations. When China, the Netherlands, and Europe as a whole can work together we shall make a better world.

With this I will stop. Thank you very much for your attention.

Managing Global Change

**Address by Professor Charles Kupchan,
Professor of International Affairs at Georgetown University**



Charles Kupchan

Mr. **Kupchan**: Thank you very much, Mr. President, and thanks to you and your partners for the opportunity to share some thoughts with you this morning and to have a conversation about the Netherlands, Europe and where the world is heading. It think it is an extremely opportune moment to have a conversation since I, like my colleague and friend Wei-Wei Zhang, believe we are entering one of those rare intersections in history, in which the world is moving from one particular type of order toward another. Professor Zhang accurately described the nature of that transition, that we are moving from a world in which the West has enjoyed a position of ideological and material primacy for the better part of at least 50 years, if not a century, to a world in

which power will be more equally distributed and in which there will be multiple models of political order contending in the market place of ideas. I would go so far as to say that the world that we are entering, the world that will emerge as the next two or three decades unfold, will be the first world in history in which we combine globalisation and interdependence with multipolarity. If we go back for example to the 17th century – let's say to 1700 – we lived in a world in which China and India collectively represented one half of global GDP. At that time, in Europe, the Holy Roman Empire or its constituent members, the Ottoman empire, the Mughal empire, the Chinese empire, the Japanese empire, were all centres of power, but they really did not interact with each other. They each had their different ordering principles. Occasionally, the Ottoman world and the European world interpenetrated each other, but each marched to its own drummer; there was no need to come together and try to arrive at a collective set of ordering norms because we lived in our own orbits.

That is no longer true. We are moving into a world in which the Beijing-consensus, the Delhi-consensus, the Brussels-consensus, the Washington-consensus, the Brasilia-consensus of necessity intermix with each other because of globalisation, because of security interdependence and because of the flow of commerce and capital. So, for the first time we as a global community will have to figure out what kind of amalgam of ordering ideas and ordering norms we will arrive at; otherwise we will probably revert to some sort of more competitive anarchy in which each of these orders – a Western order, a Chinese order, a Middle Eastern order, others – will go off in their separate directions. That is a much more dangerous world than one in which we try to arrive at some kind of consensus about the rules of the road.

The American and European political establishments are aware that we are entering this historical switching point. If you read the National Security Strategy from the Obama administration that came out last year, if you read the speeches of Baroness Ashton and other European leaders, you will see a recognition that we are entering what one could call a 'global turn'. The move from the G8 to the G20 is, I think, an institutional manifestation of our recognition that this turn is taking place.

However, I do not believe that we have updated our discourse about the ordering foundations of this turn to match our recognition of the power shift. At least in the United States the dominant narrative is still about Western hegemony and the perpetuation of the Western order. For example, someone like John Ikenberry, my friend and colleague, believes that even though Western primacy is diminishing the goal should be to bring rising powers into the tent – to invite China to come through this door and take its seat in this

room, to dock the Chinese ship of state in the Western harbour. I do not think that will work, in part for the reasons that Professor Zhang laid out. China has its own conceptions of order; there is a Chinese model that will not follow in the footsteps of the Western model. China represents a very different civilisation and it is not tracking the Western model of development. The West is defined by liberal democracy, by secular nationalism, by industrial capitalism. Those fundamental features of who we are have everything to do with the way we evolved. Much of that evolution took place right here in Northern Europe, beginning in the 14th, 15th and 16th centuries; the rise of a middle class that fought back against the power of the nobility, the monarchy and the church; the Reformation, which was the leading edge of first religious but also political pluralism; the separation of church and state that in many respects defines the Western experience. I do not see that evolution replicating itself around the world. I see in China a country that rather than pushing back against the middle class – as happened in Europe – is co-opting the middle class. There is today a symbiotic relationship between the communist party and the rising middle class, in which each scratches the other's back. The middle class that is rising in China is not a liberalising democratic force; it is working hand-in-hand with the communist party and the Chinese state to advance prosperity, not to secure democracy.

I do not share as much optimism as Professor Zhang does about the Chinese model. It works well and it will continue to work well, but it has some serious downsides: the corruption and the repression, for starters. Yes, it is a meritocracy but there is certainly a lot of nepotism in the Chinese system. I think the Chinese brand of mercantilism in its foreign economic relations is to some extent threatening a liberal economic order and ultimately, I would not be surprised if Europe and the United States respond in kind against that kind of state-led growth, in part because it puts the United States, Europe, and other liberal economies at a disadvantage. We do not have an industrial policy. We are not able to compete with the Chinese in Brazil. We are in Afghanistan with 100,000 troops; Europeans have 50,000 troops. We are expending blood and treasure to pacify the country. China is there, too but what are they doing? Mining! That is not necessarily a world where we are all playing by the same rules.

In the Middle East today, if you turn on CNN – I am not quite sure what the Dutch television stations are saying – there is talk of a ‘flowering of the democratic forces in the Arab street’, ‘this is a turning point in history’, ‘the Arab world is now going to follow the Western model’: don't bet on it! I think the chances of what is happening in Egypt today lead to some sort of stable liberal democracy in Egypt are less than zero. I may have mud on my face in six months - but the two institutions other than the ruling party that exist in

Egypt are the military and the Muslim Brotherhood. That does not strike me as offering the preconditions for the flowering of some kind of liberal stable democracy in Egypt. Nor do I think that we will witness any time soon a separation of church and state in the Middle East or an Islamic reformation, in part because Islam has a very different relationship to politics than Christianity did. Islam is a religion of law and faith; Christianity is a religion of faith alone. When the emperor and the pope split, the state and religion split. That is not true in most of the Islamic world; there is no difference between emperor and pope because religion and politics are one and so the idea that somehow we are going to see an Islamic reformation, or a blossoming of secular democracy in the Middle East strikes me as a nice hope but one that is unlikely to go realised.

What that says to me again, is that we are moving not to a world in which the Western model predominates but in one in which the Western model will need to compete respectfully with the different political models and different conceptions of order that are emerging in different regions of the world. That brings me to the second issue that I wanted to raise and that is: what about us, what about the West? I think that the West has been the anchor of the global system since the 20th century began. In many respects we need the West to try to anchor this global turn, in part because no one else is going to do it. That is because rising powers do not have an alternative vision. I think China is probably the one rising power to have the intellectual capacity, the think tanks, the universities, the diplomats, to think about grand strategy. But if you go to China today – and I have done that recently – and you sit down with the best and the brightest and ask them what the world should like in 2050, you get a blank stare. They do not have an answer to that question.

In India, another rising power, their entire diplomatic corps consists of some 600 people. The US State Department has 12,000. India is just beginning to emerge as a player that is thinking about anything other than its immediate neighbourhood. Brazil is in a similar position; still early in its rise; just in the last few years, Brasilia has opened 16 embassies in Africa alone. It is still finding its way as a power that has influence outside its own neighbourhood.

That means that if there is going to be a centre of gravity that may be able to get us from this world to the next world it will be the West.

Are we up to the task? I am not sure and I worry about it because I think that at the same time that China, India, Brazil, Turkey, and others have a new wind in the sails, a new spring in their step, we in the West seem to have come upon a period in which we are polarised domestically and in which our democratic institutions are not as nimble and responsive as they used to be.

I do not think it is accidental that the United States is facing its worst period of polarisation in over a century at the same time that Europe is facing a process of re-nationalisation in its politics. I think this is the reaction to some deeper structural forces in the world, including globalisation that gives democratic states less control over their destiny than they used to have, of immigration that is making many people uncomfortable with open borders and open societies, of the economic crisis which is leading to discomfort and dislocation and uncertainty about whether our children will have better lives than we do. This is all making for a dyspeptic politics, a discontent within the Western liberal world. As I said, it is manifesting itself differently on the two sides of the Atlantic. In the United States we are suffering through an intractable political polarisation that is producing either no policy or policies that are the lowest common denominator. I applaud president Obama for striking a deal with the Republicans on the tax cut but, is it really tackling any of America's major economic problems? No, and meanwhile it is adding to the deficit. It was the only deal he could get and he should have taken it. But we are pushing our problems into the future. We are not grappling with them.

On this side of the Atlantic there is more political momentum at the domestic level. But at the level of Europe there is diminishing political momentum. I am an American who has for the better part of my career been a Euro-optimist and a strong supporter of a more collective Europe. I am worried; I come to Europe reasonably often – probably every two or three months – and over the past three, four or five years every time I come to Europe I go home more worried because I feel that politics is becoming more national and less European. I do not see leaders, others than those you would expect like Van Rompuy or Barroso investing their political capital in Europe. The dominant political narrative is now either anti-Europe or it is just silent on Europe. I cannot remember the last European election in which Europe actually mattered and in which anybody discussed Europe and its future. So, the problem that we face is that the United States is polarised, almost to the point of paralysis, Europe is turning inwards, and the project of European integration is in my mind more vulnerable today than it has been since the process of integration started in the 1950s.

What do we do about this? I will leave the US out of it for now but I would make one comment on where we heading in the United States that I hope will to some extent serve as a wake-up call in this room and for Europe generally. I think the United States is about to enter 'a period of strategic retrenchment'. That is to say to the degree that the polarisation will lead to some kind of new political equilibrium, this political equilibrium will be one in which the US lightens its role in the world. That is partly because we are facing a massive deficit and bringing that deficit down ultimately means cutting all budget

categories, including defence and entitlements. When we get to that point – and we are already getting to it – you will see a lot of pressure for the United States to rely more on others, to get out of Iraq and Afghanistan, to bring the troops home. I am not talking about an isolationist retreat; I am talking about a more selective and paced retrenchment. That debate is now emerging very quickly in the United States, in part because the Republican Party for the first time since World War II now has a very clear neo-isolationist wing; it is called the Tea Party. The Tea Party does not say very much about the world. To be quite honest, the Tea Party does not know very much about the world; the movement focuses on domestic affairs. But to the degree they have a default position on foreign policy, it is the one that hails back to the Jacksonian tradition, the libertarian tradition. That tradition says: American engagement abroad comes at the expense of liberty and prosperity at home. Not all of the Tea Party members are going to be neo-isolationists, but enough of them will be to cause a rift and a new debate in the Republican Party. They will find some very comfortable bed fellows in the left wing of the Democratic Party. That is because the Democratic Party is moving to the left, many of its representatives come from parts of the country on the coasts that are quite liberal, generally pacifist, and anti-defence spending. That says to me that we may well find a new alliance between left and right focused on cutting the defence budget and turning to others to do more in the world.

I would also point out that in public opinion polls that have been carried out over the last six to eight months on the question whether the United States should mind its own business and spend more time focusing on its problems rather than other people's problems, 49 per cent of Americans responded 'yes' to that. The highest 'yes' response since the question has been asked; before, the highest 'yes' response was 32 per cent in the early 1970s – a backlash against the Vietnam War. 49 per cent represents a major uptick in public support for a turning inward, and it is very much a response to the wars in Iraq and Afghanistan coupled with the deficits, which many Americans believe are out of control.

So, that all says to me that more responsibility is going to come to this side of the Atlantic: it is accordingly very important at this moment in history that Europe does something to reverse the re-nationalisation of political life that is taking place. That is partly because – as I said – the West is still critical as an anchor at this time of global change but also because if you simply look at the economies of scale, individual European countries simply are not big enough to matter on the global stage. The Netherlands, not to mention smaller European countries, but even Germany, France, the UK, are too small to cut a figure as global players. Germany has a population of about 80 million. Compare it to China! In that respect it seems to me only if Europe aggregates

its voice, only if Europe aggregates its abilities will it be a global player and be able to help the United States get us from the world we live in today to the world that we will be in a couple of decades.

Our host said a few minutes ago that maybe the financial crisis is going to lead to new levels of collective governance on the economy and on finance. I hope that is true, but I would add that it is not enough. We also need to see Europe turn the corner on security, on foreign affairs, and on defence. Maybe Lisbon and its new institutions will provide the wherewithal to push Europe in that direction but that will not happen in and of itself. Those institutions will be still-born unless European leaders come along and create the political environment in which those institutions have the support of average European citizens and average European voters.

My final comment would be that if I were to leave Dutch opinion makers and Dutch politicians with a piece of advice it would be: try to play a leading role in breathing new life into Europe. If the Germans are not going to do it – and I am not sure they are given where German politics is now – then maybe it behoves smaller countries and rimland-countries like the Netherlands to try and fill that gap, to try and generate a discourse that reverses what I see as this worrying re-nationalisation of life in Europe. As I said, I think the West as a coherent and meaningful political community is perhaps more important moving forward than it has been looking back. The United States has a lot of work to do with getting through this period of political polarisation; I hope it finds on this side of the Atlantic a Europe that recovers also its political equanimity and can be the partner that the United States will be looking to as we enter into what I think inevitably be a turbulent period in global politics.

Thank you!

Address by Elmar Brok, Member of the European Parliament

*Elmar Brok
Jan Peter Balkenende
Wei-Wei Zhang
Charles Kupchan*



Mr. Brok: Mr. President, ladies and gentlemen! I am very proud to have come to this wonderful building, which is perhaps one of the most if not the most beautiful parliamentary rooms in Europe. Around that time this was built China had one third of the GDP of this world. The colonial times because of other reasons have changed. We now have a shift of power but it is not a new one. China is on the way to take its position back as number one in the world, economically and partly politically. So, it is not a new situation. This was only an interim situation between one strong China and another strong China. If we look at the dramatic change of the political and economic landscape we see that Europe perhaps together with the Americans to find its role in that. With the financial crisis the big shift becomes clear. As Europe changed the world with the West-Indian Associations and colonial powers, now sovereign funds from Asia are doing the same thing for the rest of the world. We have to see that this change will also take place by a dramatic demographic shift.

China has already more than twice as many inhabitants or consumers than the United States and the European Union combined. If you take India into account you can see this dramatic shift just completes the demographic figures. At the moment the European Union has 8 per cent of the world population and 29 per cent of GDP of this world. The world will not accept that. The discussions

we have about migration over the Mediterranean or the discussion about the border between Turkey and Greece are part of a changing world and the world does not accept that this 'island Europe' with so few people have such a large share of the wealth of the world. Therefore, we have to change our policy dramatically but as was just said, we discuss re-nationalisation in Europe and intergovernmental proposals in Brussels in these days. If you look at the figures they show GDP in every statistic, also in Europe by single-states. It looks now dramatic that Germany goes from place 3 to place 4 and so on, but they do only show figures about Germany or the Netherlands, or Italy; only the EU figures are missed. If we do not only take European figures, the European Union is still the biggest economic power in this world. Europe is still the biggest trading power in this world, by far. But we have not even statistically started to think about it that together we are a power. Alone, because we are small, we are not a power.

The Luxembourg Prime Minister Jean-Claude Juncker once said: seen from Washington all European nations are small but the smaller have earlier understood than the few big ones who believe their directorates can still run the world. This must change, more in Germany than in the Netherlands, but everywhere, to understand where our future will be. We also have to see that the internal market with 500 million people is to be used as a real home market. If we see that the biggest consumer markets are China and India a nation home market has no chance. Volkswagen is producing more cars in China than in Germany. This shows us perhaps what the real situation is, where we have to look for.

I can give you a lot of other examples and figures, but I would like to say a few words about what we have to do.

Europe, I think, has to grow together and has to act together. Otherwise, we will become what Fareed Zakaria described, that we are in a post-American world. And this is to a certain extent reality since many years. But that should not be the case if I look at the economic figures. Also, others will have that problem. I do not agree with Professor Zhang that this is a question of discussion between democracy or autocracy; it is only good governance. Legitimacy comes from good governance and participation. We see it in many cases in history and also now at the moment in Egypt and other places. Here, China has to change its system. It is not a way that a system delivers to people; at the end of the day in a free society people want to participate. They want to take part in the decision and not given by philosopher kings in a Plato's sense some good on the authorities. Therefore, China will still have to change from an autocracy to a democracy, or find another way of participation. It must not exactly be the Euro-model in democracy. We will see

with 400 million poor people in China how this can work. How the party bureaucracy on the local level is able to keep down the people. Legitimacy is given by stability. Everyone who had autocracy said 'me or chaos', as we see these days again in a certain place called Cairo. This will happen everywhere and China has to face this problem, too. Therefore, sometimes I believe that in the long run it would be better to invest in India, which is already a democracy. The other day I heard that for example in India a court has decided that intellectual property cannot be protected if it is against national interest.

That brings me to my next point. This worldwide economy can only work if everyone accepts the rules of the social market economy. If we have a global economy we must have global rules, as we have now seen in the financial crisis. Everyone, emerging or already there, has to accept these rules if we want to have a safe and positive development of our economies and no politically motivated crises. Therefore, I think it is crucial that the Americans and the Europeans work closely together because they still have a strength that is nearly 60 per cent of the GDP of this world. That will influence the setting up of standards and rules. Here, I do not understand: the Europeans make agreements and treaties with everyone in the world. The Americans make treaties with everyone in the world. But there is no treaty between the Americans and the Europeans. We have set up the Transatlantic Economic Council to get a tariff-barrier free market. It means 3.5 per cent growth rates for both sides and 1.5 per cent growth rate worldwide. Why are we not getting that? Why do we control our pharmacy products twice, in America and in Europe? The same happens in the automobile sector and many other sectors. Accounting standards: why do we not have common standards? Let us organise a Transatlantic market on the level of free market and the same values, which will strengthen ourselves economically at a time of crisis but will bring us together in this changing world, an economic basis that can compete in the future with the so-called emerging countries but still try to protect behind other developing countries is also not the case. We should not allow China anymore to be protected by developing countries in international negotiation. In the future, China is the second biggest economy and should not try to be behind Tanzania in its development. Also, we should not accept this in international organisations.

Ladies and gentlemen. We also have to change our position in a way that we have to look in the foreign policy combined with economic policy. There we come to the question of raw materials. Europe is rich in industry, rich in innovation and technology, but weak in raw materials. When we talk about human rights in Darfur China makes agreements with Khartoum on oil. We therefore have for example, despite our different history in the European

Union with our Eastern new countries a policy, which is a constructive policy with Russia that has in the long run the same interests in this changing world as we have. We have this Transatlantic market and a constant relationship to the raw material Russia. We might have a chance. If we do not think so strategically and everyone runs alone to get its own pipeline with own agreements and with own reception in the Kremlin but not have a strategy together we might lose or we will lose. We are in a difficult situation where we have to act. I can only give you a few examples in this short time but I would like to make one other remark. Both speakers have talked about it.

We are facing global challenges, globalisation, economic crisis, climate change, energy, terrorism, and many other questions, where neither The Hague nor Berlin alone can solve anything. In Berlin or in The Hague we can decide what we want but it has zero impact. If we make this decision on such fields like climate change alone it will kill our economy. But if we act as Europeans together we might have a chance. We talk in national capitals about 'sovereignty', which has not to be given away. You have only sovereignty if you have the power to go for it. Otherwise, it is just paper. But if the Europeans do it together, if we pull our sovereignties we might ensure the interests of our citizens on a global stage. Europe means not to empower Brussels, but Europe means more rights and more future for our citizens. If our national governments avoid that to say because it is not popular at home, but say that Europe is good for the people and we have problems at home to hide behind, then it does not matter which political party we are because then we are all the same. Then we have no future. Therefore, we must have better decision-making procedures in Brussels. We must use the Treaty of Lisbon in a proper way and we must give the High Representative a chance. It should not be the case that during eight weeks the Council is not able to make one decision on the Copts killed in Cairo because the third word in the fifth line could not be agreed on. That happened this week. If we do not change this attitude then we are in a bad situation. But I believe that citizens are wiser than politicians; citizens will force us to do so. If we are not able to do that there comes a situation like the French writer Paul Valéry decades ago described: Europe will unite or will become the tail of the Eurasian continent.

Address by Jan Peter Balkenende, Former Prime Minister of the Netherlands



Jan Peter Balkenende

In his address, Mr. Balkenende complimented the organisers on arranging this conference on power shifts in a changing world order. He also thanked the previous speakers for sharing their views on what is happening in the world, adding that we can see these power shifts taking place every day. Look at what is going on within the United Nations, the IMF, and the World Bank. Structures are changing. Other countries are taking the lead. Just look at events in China and Asia.

Mr. Balkenende concentrated his remarks in three main areas: first, a number of general observations on global power shifts; second, the role of Europe on the world stage; and finally, the Netherlands' interests and the challenges it faces.

Mr. Balkenende began by stressing that when we speak of the changes taking place in the world, it is important not to lose sight of the fundamentals. He mentioned three key elements in this respect. The first concerns President

Franklin D. Roosevelt's four freedoms: freedom of expression, freedom of religion, freedom from fear and freedom from want. Those freedoms are still valid today. And we have to fight for them every day. These four freedoms have to do with the fundamental nature of democracy.

The second element is a vibrant and active civil society. People are more than just consumers, or subjects of the state. They are also members of society. We saw the power of civil society in the demise of communist Europe, for example. It was the vitality of civil society that led to the change of the politico-economic system.

The third fundamental element, Mr. Balkenende said, is the rule of law. All powers should be based on democratically adopted laws and measures. The separation of powers is crucial – as is the need to respect basic human rights. He mentioned the visits that he had made to China during his term in office, and his talks with Chinese premier Wen Jiabao. During their first meeting, a private dinner, the two had had a long and frank discussion about developments in China. Mr. Wen Jiabao explained, just as Professor Zhang had earlier, how China had improved the quality of life of 400 million people. While Mr. Balkenende acknowledged this achievement, he also highlighted the importance of respecting basic human and political rights.

Mr. Balkenende went on to stress the links between economic, political, social and cultural development. These areas cannot be separated, he argued. They all call for pluralism, which is not compatible with a 'top-down system'. In his view, this was at the heart of the difficulties of the communist regimes. Their insistence on a top-down approach led the entire communist system to fail.

Mr. Balkenende's final general observation concerned the common challenges we all face: energy, food security, the Millennium Development Goals, the WTO negotiations and climate change. We have to work together to tackle these issues, despite the power shifts going on around us. At certain moments, he said, he had the feeling that many other decision-makers shared his ideas; he referred to the optimism that pervaded the G20 meeting in London, where there was a clear impetus from the heads of governments of prominent states to finalise the WTO negotiations. He recalled the words of President Barack Obama, who observed that during the crisis of the thirties it took more than a decade for the world leaders to meet, while now they meet every eight or nine months. But unfortunately, one year on, the WTO negotiations have still

not been finalised. What's more, the climate change summit in Copenhagen was not a success. There is still a lot of work to be done. That was also his message to his Chinese colleagues. China is now a major economic power, but with such a position comes responsibility. The responsibility to make a difference in tackling climate change, as well as in dealing with North Korea, for example. Global problems require global solutions.

In the second part of his speech, Mr. Balkenende considered the role of Europe on the world stage. He cited two authors with clear views on the subject. One is a young researcher named Parag Khanna who is very optimistic about Europe's prospects. He predicts that in about ten years' time Europe will be a major global player. Then there is Kishore Mahbubani, Dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore, who believes that Asia has the most potential.

No one knows what will happen in the future. Down through history, views on Europe have always differed. In the 1980s, there was a lot of negativity about Europe. 'Europe 1992' changed that. The goal of having a single common market created a lot of positive energy. 'Euro scepticism' turned to 'europhoria'. These days, the mood has swung back again towards scepticism. In a way, said Mr. Balkenende, that is understandable, partly because of what has happened in Greece. But he also stressed the advantages of the Greek situation. Now, everyone agrees that the Stability and Growth Pact criteria must be adhered to. There is wider public awareness that things have gone wrong, but also that things can change. Europe remains the world's biggest consumer market. But developments in Asia are moving fast. So Europe must step up. We have the potential. Europe has a great history, a great culture. Europe is values-based and its social market economy is a superb economic model. Better than a liberalised free market economy. Better than a controlled economy.

In concluding his address, Mr. Balkenende discussed the situation in the Netherlands. From a European perspective, the Netherlands is a medium-sized country. From a global perspective it is small. But the figures tell a different story. We are 16th largest economy in the world. The 8th largest financial sector, the 6th largest exporter and the 5th largest contributor to the United Nations. We are very active in the World Bank and the IMF. We spend 0.7% of GNI on development cooperation and we are well known for the '3D approach' we took in Afghanistan. The Netherlands is an active international player and must remain so. Turning inward would be a very risky strategy for a country like the Netherlands. We cannot live without Europe. Our future lies in Europe. Our future lies abroad. A global approach is the only way we can tackle the

issues of today: climate change, free trade, energy, and so forth. It is the only way we can address difficult issues like human rights. And the only way we can deal with power shifts in a changing world order.

Mr. **Chairman**: Thank you very much, Mr. Balkenende. Elmar Brok has to leave at a quarter to twelve. So, if you have questions for him please ask them before that time.

Discussion

Mr. **Van Eekelen** (AIV): I asked for the floor because I missed one important thing and that is the question 'what is order?' To me, order means a rules based organisation. In that respect Elmar and Jan Peter hit the nail on the head by saying that the European Union is the only rules based organisation. Therefore, my question is – also for our Chinese Professor because I enormously appreciated his speech – whether China is prepared to follow rules based order in the world. Is China prepared to participate in international affairs and is it prepared to take responsibility? That is a commitment and a responsibility. Is China a free-rider in the world and a regional bully, as somebody described it? I hope it is not. It is taking more responsibility but my point is that the BRICS countries are economies; yes, but is Russia playing a role politically? It is not even a member of the World Trade Organisation. Shouldn't we focus much more on organisations, which express commitment and responsibility?

Wim van Eekelen





Mr. Van Staden (AIV): I am a member of the Advisory Council on International Affairs. I also want to pursue the debate on the general theme of this conference, the changing world order. It is widely recognised that the days of the world order rooted in Western and particularly American predominance are over. It is tempting to make the case now for a more horizontal order – as Professor Zhang did – based on a global power concert. But the question arises who in this kind of order is going to provide the global public goods? Professor Kupchan spoke about the possibility of US strategic retrenchment – I agree with his analysis. Regarding Europe the future is open, and we have to do our utmost to enhance Europe's profile on the world stage. However, there is the risk of Europe missing the rendezvous with history because of its internal weaknesses.

As far as China is concerned, there have been numerous calls on China recently to play the role of responsible stakeholder, to borrow Robert

Zoellick's phrase. We drew from China mixed responses to those calls, if I see it correctly. There is the excuse – or the explanation – on the Chinese side that the country is still very much preoccupied with domestic problems; after all it still sees itself as a developing country. Chinese leaders tell us that China is already doing its part by providing peace keeping troops, while it came to the rescue in the financial crisis. But as I see it, China is a bit ducking the issue on this matter. Of course, China might argue: you are speaking about stakeholders, whose stakes are involved? Are we talking about Western stakes or not?

Looking at the future, we almost automatically presume that order will prevail but Professor Kupchan was also alluding to the possibility of competitive anarchy. So, again, who is going to deliver the major public goods in the future?

Mr. **Voorhoeve** (AIV): Thank you, Mr. Chairman. There is a saying by Confucius, which I like as I think it is a more practical guidance to how to deal with opponents than – with all due respect to the former Prime Minister – a core saying in the New Testament. The saying by Confucius is 'love your enemies but be one blow ahead of them'. I think that is a wise guide for long-term politics. I think – and this leads to my question – that the main driver of long-term trends is energy, energy consumption patterns and energy production. The underlying question is which of the major powers we are discussing is going to solve the crucial energy and climate question. China has an enormous amount of coal, so it can escape the future scarcity of oil and gas but the consequences are of course a tremendous carbon dioxide production. So, I address my question particularly to Professor Zhang.

Mr. **Post** (The Hague municipality): Thank you, Mr. Chairman. Gentlemen, just recently a report was published by an advisory organ, in the Netherlands the WRR, de Wetenschappelijke Raad voor het Regeringsbeleid. We all know that organisation here in the Netherlands. It is a very important report. It is called 'Attached to the outside world from a Dutch perspective'. It is not a literal translation, Professor Kupchan.

Here you are in The Hague, in the Netherlands and we have a lot of international institutes, judicial and political institutes. Here in The Hague and the greater The Hague area, we have the International Criminal Court, the Yugoslavia Tribunal; I think you know them all. Can you give us an advice what the role of these specialised institutes will be in a changing global order? Maybe all the gentlemen behind the table could go into it if we have enough time, but I specifically ask this question to Professor Kupchan.

Mr. **Chairman**: May I ask Mr. Brok to answer first? There are more questions for the second round.

Mr. **Brok**: I would like to make a short remark, especially on what Mr. Van Eekelen said about legal and practical commitments. A national market does not exist anymore. We have a European or a global market. But we are still not able to put the legal environment for such a market on the same level. I think this is a crucial problem. In some fields it will be very difficult to do so. In the European Council I tried to talk about common pension ages in a competitive Europe. This becomes already very difficult because of the differences in Europe. So, we have to see which rules we have to set up for a mechanism to make the market run. The question of competitiveness must be solved by everyone at home, but we have to respect the rules. Also the question is very important how we can make the commitment really binding. You cannot make them binding in terms of powers at stake because we have to deal with sovereign states. We have to push forward that such legal commitments become very precise, from intellectual property to financial rules and many other questions that have to be fulfilled to make such an international order for a market economy. Otherwise it will not work, because it will not be free and fair. Everybody will lose by that and not respecting it would mean that everyone is a loser at the end of the day.

Let me give you an example with intellectual property within our country, where this is an important question. I come from a region where we have a lot of machine tool industry. The best development from an engineer in a factory in my region is not helping the company anymore. This machine comes back from China after one year, copied and for half the price. But my hope is that the Vietnamese now produce after a year the Chinese machine for half the price. So, the more such countries like China develop, the more they have to understand that it is also in their interest to accept the rules and to implement them. This will be a decisive point and therefore, it is also important that Russia for example joins the WTO. There is a certain binding in that. That is the reason why some oligarchs in Russia do not want to join. I believe that this must be one of the main aspects. The G20 is a much more important body than the G8 for all these reasons and moreover, it combines emerging countries. Here we have to find a way that what they agree will be implemented at home in law. Otherwise, the world economy is at stake or it will come to a situation with such tensions that will even lead to dangerous situations like wars. Therefore, common rules in a global economy are the safest way to more wealth and peace. This has to be understood; otherwise we will run into difficult situations.

Mr. Zhang: I will just comment briefly on a few questions and first a general question, mentioned by quite a number of people. In my speech I mentioned that China is now the largest laboratory for economic, social, and political experiments. Indeed, even in the field of political reform and democracy, we are experimenting different initiatives. If I have to cut the long story short, I am thinking of the famous remark by President Lincoln ‘a government of the people, by the people and for the people’. I think it is fair to say that at this stage the government of China is a government of the people and for the people. It is accountable to the people. Let me give an example. Obama is still pushing hard his reform for medical insurance. There are a lot of setbacks. In China, we have already done that within ten years. 95% of the population is insured. So, it is more directly responsible to people’s demands, more efficient.

How to achieve a government by the people? That is not easy. In the Netherlands, you have established a set of practices so you consider this is the government by the people. In the case of China, how to ensure a government by the people the size of 1.3 billion? It is by no means easy. We are having experiments. Essentially, the most probable direction is ‘selection plus election’. Selection is based on the Chinese system of meritocracy and election is a more Western approach. So, we are already experimenting with that. We also think tentatively that this approach eventually could ensure better governance than simply holding elections.

The other thing is about the economic and political order of the world today. Indeed, China is a beneficiary of the current international order. Let me give an example. Since China’s entry into the WTO in the year 2000, China’s economy has more than quadrupled within one decade. So obviously, China has benefited a lot from its engagement with the international system and with its international partners.

But on the other hand, given the size of China and given its own economic, political, and cultural traditions China is also perhaps a reformer in the sense that we need to reform certain aspects of the international system. We are not revolutionary to overthrow the system; by no means. But indeed, you can find many examples of the system not working properly. For instance, even Europeans will agree why the world financial system is operating in such a way – so many speculations but without supervision – why the US rating agencies can play such a prominent role and dictate others. This is something that we should think about in terms of reform, i.e. reforming aspects of the current international order. As for China as a responsible stakeholders, to be honest, we feel – and I feel in particular – that the United States itself is not a responsible stakeholder. That is the problem. The financial crisis started in the

United States. How many tens of millions of people have suffered from it, not to mention the Iraqi war? So, different players in the international system should all become responsible players, in particular the United States. For one thing, the United States should become more responsible with its dollar-policy, and its devaluation of dollars is destructive to many. Of course, China can do more in the world today. Indeed, the speed at which China is rising is faster than most Chinese and even Chinese leaders expected. Perhaps, we are not yet fully prepared for that. We have to have a learning process. On the other hand, China will have a lot of difficulty with its own agenda being dictated by others, by other countries. That could be risky. Take for instance Korea. China has a lot of trade with and aid for North Korea but on the other hand, North Korea is fiercely nationalistic. It is not that China presses a button and North Korea will do it; it is far more complicated than that. So, in certain areas China could perhaps take more responsibility but in other areas, other actors, including Europe, should be more dynamic and more active.

Finally, concerning the issue of energy and environment: indeed, China is one of the largest and perhaps the largest polluter in terms of emission of CO₂, either China or the United States. Yet, if we look at the recent statistics China is actually leading the world in terms of solar energy industry, wind energy and in terms of electric cars. China is doing very efficiently. A typical feature of the China model is once it realises the mistakes it has made the way to correct mistakes is more efficient. I think with the Chinese model there is a hope for a better environmental policy. We issued the order for adopting European petrol standards across the country, and it was done overnight. If we adopt the American model I do not see any chance for curbing climate change.

Thank you.

Mr. Kupchan: Thank you. Mr. Van Eekelen raised the critical question and that is 'what is order'? I think you gave the right answer and it is a rule based system. In many respects, what all of us have been discussing this morning is what that rule based system will look like, who will write the rules and whether the main players and the international system will abide by those rules. We are coming off of the long run in which the West has written the rules. In many respects, since the Peace of Westphalia, the Concert of Europe, the Versailles Treaty, the UN, the Bretton Woods system, some combination of European and North American powers have been creating that rule based order. I think we are getting to the point where that will no longer be sustainable, simply because there are a lot of countries out there, China among them that may not want to play by our rules. That is going to require us to engage in the discussion about the next set of rules. I think it is going

to be hard to come to an agreement, in part because – to put it in software terms – our operating systems are different. I would rather see aim low and find a set of rules that everybody plays by than to aim high and see all of them broken on a daily basis.

I might disagree a little bit with Professor Zhang about the United States. The US has made mistakes; the financial crisis, the Iraq war but on balance the US has been the provider of public goods that you were referring to. Those public goods will be harder to come by and it seems to me that we need to think about what new set of rules will get more players in. Here, I would respond to former Prime Minister Balkenende: I agree with you on a values' based approach but I also think we need to be careful not to de-legitimate other actors by putting the values' issues in the forefront. We need to work with the Russias, the Chinas, and the Egypts of the world even if we do not like the way they run their countries. That is going to be even more true when we see this shift in the distribution of power. We cannot in any way neglect those values but I would tilt in the direction of a more realist approach when one considers the nature of the challenges that we have before us.

One final comment, the final question about some of the specific institutions in The Hague. I think that precisely because global governance is going to be hard to come by. That is to say, consensus on the rules will be hard to come by. We may do better to drop down to regional institutions, to functional institutions. When you add up the ICC, ASEAN, the EU, the African Union, Mercosur: in many respects the regional institutions and the functional institutions in the year 2040 may be the true deliverers of a lot of the public goods that we are talking about, partly because it is easier to get consensus and action at the local level where there is more consensus on rules and norms than at the global level where, as I said, I think we are going to be living for the first time in history in a world in which you have very different views about principles, norms, state-society relations, values, and human rights. In many respects, if we cannot get consensus at the global level we may be able to get it at the regional and the functional level.

Mr. **Balkenende**: It was interesting what you were saying about values. Mr. Van Eekelen started the discussion about the rules based system but a rules based system is also linked to values. You were talking about the organisation of economy and a social market economy. Of course there are regulations and rules but it is also based on fundamental values. It has to do with solidarity. It is always good to underline the link between values and the organisational issues.

Secondly, when we talk about a rules based system it is important to learn some lessons from what happened in Copenhagen when we talked about

climate change. I think Europe played a constructive role in Copenhagen. What was the fundamental problem? In Europe we said we need a rules based system, we need a binding agreement. But what happened? President Obama showed a personal commitment but he was tied to the fact that the US Congress did not allow him to go further. China was talking about its own responsibility. It was a clear commitment: China wanted to do more in the sphere of environmental issues but it was not willing to accept a binding agreement on a global scale. And that was not the message of Europe because we said it is important to have such an agreement. If Europe would not have acted we would not have had the financing of the climate change policy. I think Europe played a good role over there.

The same happened with the financial and economic crisis when we talk about issues like more supervision and more integrity and transparency. I think Europe played an important role and a constructive one.

My last remark is about what you said about elections. I know the discussion but elections are part of a democratic orientation. I would underline the importance of having elections but as an example of a democratic situation. You can talk about the structural aspects of organising elections but it also has to do with a democratic mentality. It has to do with the question how you can solve problems, how you can avoid tensions in society, and how you can prevent fights. This has to do with a democratic tradition. Therefore, I underline the importance of having elections.

Of course, when you talk about elections this has to do with the development of a democratic tradition and that is not everywhere the same. In Europe, it did not exist from one day to another. It took some centuries of development. It is important that we are working on democratic development; otherwise you will get difficulties in the long run.



Second round of questions

Mr. **De Zwaan** (Clingendael Institute): My comment was addressed to Elmar Brok and Mr. Balkenende. Now that Mr. Brok has left I will address my question to Mr. Balkenende. Everybody agrees that we have to do it together, so it is about the role of Europe. However, I think all the issues we are talking about today – the threats and the challenges – have to do with the remaining degree of sovereignty of the Member States. Today, in the Summit Meeting in Brussels, the modalities of a new Treaty reform with regard to monetary policy will be discussed. Today also the possible outline of a common energy policy will be discussed in Brussels. We are not yet there. Now, more specifically with regard to foreign policy and defence it is my humble opinion that we did too little when there was a possibility to create a common foreign policy, and that is when we discussed the contents of the Lisbon treaty. So, perhaps I may ask you Mr. Balkenende as former Prime Minister: did we do enough when we concluded the Lisbon Treaty on this point? Providing for labels as ‘President of the European Council’ and ‘High Representative’ is fine, but is it enough in order to provide the European Union and the member states with sufficient tools to develop a real common foreign policy?

Mr. **Van der Hoeven** (ISS and AIV): I have enjoyed the exposé of the various socio-economic models, some dynamic, and others sclerotic. Although, as was made clear, these models are indeed very different, we notice one trend, which the American model, the European model, and the China model have in common namely growing inequality. In the United States and Europe we have seen over the last 20 to 30 years a growing inequality, as a consequence of globalisation, but we witness now also in China rapid growing inequality, mainly because of the growing industrialisation and the schism between the coastal areas and the rural areas. So, all three models presented this morning manifest a trend of growing inequality. My question is therefore how will this growing inequality affect the behaviour of these different socioeconomic models and what impact on a world scale will this have on the relations between these different blocks of countries which these models present?



Mr. **Knottnerus** (WRR): Mr. Chairman. A lot has been said about the report of the Scientific Council for Government Policy, mentioned by the President in his introduction. There is one thing I would like to ask the panel of our excellent speakers. While we are talking a lot about the geopolitics, about the organisations of states and between states we did not hear so much about the non-governmental organisations, the non-state organisations that have crosscutting worldwide networks in all fields of environment, human rights, economic development, international aid and also networking between citizen and for example industries. In our report we made some pleas for developing new models for collaboration between states and non-state actors because of the importance of those other networks. What do you think about the perspectives of such strategies?

Mr. **Van Baar** (Journalist HP/De Tijd): I have two questions, first to the honourable speaker from China. I liked his lecture but I have a question about the official point of view since the 1980s that your former chairman Mao Zedong was 70% right and 30% wrong. You also mentioned something about more policy room. Is this still the case? Can you elaborate on this or do you think it is probably 50-50 today? I am seen – and probably I am – as a Eurosceptic and I was struck by the Europessimism of Professor Kupchan. It seem to me that at the moment Angela Merkel and Nicolas Sarkozy seemed to have found each other in saving the Euro, in trying to find new accommodations in that. Don't you see a sort of economic government in this? Do you believe in that – Mr. Balkenende seems to be more optimistic – or is it that bad with Europe that the optimism of today has to come from Eurosceptics like me?



Mr. **Grotenhuis** (Cordaid): One of the previous speakers referred to the role of non-governmental organisations and we are one of them. On my travelling through Africa, Asia, and Latin America I saw another feature besides the global power shift we are noticing, which is much more on what I would call the ‘psycho-social’ level: when you look at Asia, Africa, and Europe I see and hear in discussions with partner organisations that Asia is a continent of confidence, that Africa is a continent of hope despite poverty, and that Europe is a continent of fear. People fear for the future or their pension systems; they are not sure whether their children will have a better life as they had themselves compared to their parents’. It seems to me that one of the biggest challenges for Europe is to address this issue. You can feel it though you can measure or count it. You can feel in the media and in the public discussion that a mood of fear is creeping into our society. How in our international relations and our positioning ourselves in the world are we addressing these psycho-social aspects, of how people feel about the way the position of Europe is threatened by this global power shift?

Mr. **Kupchan**: The question about inequality is a very important one because it is having negative effects on Western societies and more positive effects in the developing world in the following sense: a lot of the atmospherics created by income pattern is about expectations. In the United States for example not only are we seeing growing inequality but we are seeing lowered expectations among the working class where wages have been stagnant for the better part of the decade. It is the sense that the economic future looks bleak and that income inequality is growing and that explains in part the rise of the Tea Party

and the political polarisation that exists in the United States. It also feeds into some of the fear and the concern that the last questioner was just asking. The flipside of it is that although there remains intractable inequality in say Brazil or in China expectations are rising. 400 million have left poverty in China. In Brazil the Bolsa Família, the income redistribution plan, has affected 25% of the population positively. So, even though there is a very clear inequality in China, Brazil, and some other rising countries expectations are going up across the board. That is why if you look at public opinion polls in China when you ask whether they believe the conditions in their country are favourable 80% of Chinese say 'yes'. The Pew polls show that the corresponding number in the United States is 23%. That is a big gap and it also raises some interesting questions we were talking about earlier: how to measure legitimacy, to what extent is it just about procedure that is to say and democracy and election and to what extent should performance also be factored in.

On networks and NGOs: one of the features that we are heading toward is that we will see governance occurring at multi levels. We have tended to speak today about states and intergovernmental organisation but I think increasingly NGOs, social movements, networks, chat rooms will be a very influential part of international politics. We are seeing that today in Egypt where as far as we know this was really a youth movement that was organised on cell phones and the internet. By the time the Egyptian government shut down those systems it was too late; people were in the streets. That is new. It is not going away and I think it is a very important part of the world to which we are heading.

I did not mean to be excessively Eurosceptic. In voicing concern about what is happening in Europe, ringing the alarm bell more than reading an obituary. It seems to me that more and more Europeans are waking up to the fact that there is a dangerous re-nationalisation taking place. That awareness is essential to reversing it. I am by no means someone who believes that the European project is running out of steam. In fact, if I were forced to bet money on it I would say it will recover. It will continue at some point to move forward. But I do think that this moment of setback or this moment of self-doubt is more serious than previous round. On both sides of the Atlantic we are experiencing an important generational change. In my country the World War 2 generation is gone. The Richard Lugers, the Republican internationalists that are the main stays of our foreign policy are gone. If you look at younger members of the Republican Party they are not centrist, they are not internationalists. We are seeing a turnover in the United States that is going to have long-term political consequences. That is part of the reason that the bi-partisan centre in the United States is effectively dead; it is gone. It is

populated by a small number of Republicans, a few more Democrats but that foundation for American foreign policy from Roosevelt through Clinton is gone. That means that we entering an uncertain phase in American foreign policy. On this side of the Atlantic I simply question 'is a Dutch person of twenty years old as committed to the European project as a Dutch person who is seventy? Yes, Europe matters but do they still attach to it the historic importance of someone who lived through World War 2 or the rebuilding of Europe? I do not know the answer to that but I do know that public opinion polls are starting to pick up a certain level of apathy among younger Europeans when it comes to Europe. They are not opposed to it but it does not animate them politically in the same that it did to the older generation. That says to me some politician – perhaps one sitting to my right or others – needs to grab this horse by the reigns and make sure that younger generations are as committed to the project as the older generation.

Mr. **Balkenende**: Let me go on with Professor Kupchan's last remark about the European dream. It is completely true what you are saying; in the fifties there was a kind of attitude in European countries of 'no war again'; we have to change it and we have to work together. There was a kind of European dream. Of course, we started with the economic cooperation. Today, you can see more and more that people take all the developments for granted. It seems to be an existing mechanism but you have to be aware of the fact that you have to keep it vital every day. You have to work for it. Young people are travelling around on one euro, they are studying in other countries, and they work for internationally acting companies. That is the strange thing: we are living in a European world but on the other hand we are not talking about the concept of Europe. Therefore we need further discussions and awareness of the fact that you are not only a Dutchman or a German, but also a European.

That brings me to sovereignty and your question is crucial: what happened in the past and what should be the future? It is true that mistakes have been made in the past. You are referring to monetary issues and I already mentioned the issue of the Stability and Growth Pact. What happened during the last ten years? It was a kind of abstract formula. When I talked to President Chirac or Chancellor Schröder we never discussed this seriously. I remember President Chirac saying it was nonsense, it was too strict. But suddenly, now it changes completely. Suddenly, we are talking about a rules based systems with sanctions. We should have done that earlier. I always gave that warning: you need that type of financing policy also in order to get the right and sound financial policy in the longer run. Everybody knows that the population is ageing.

You said with regards to the Lisbon Treaty that it was a vague formula. Now people are seeing that if we are not taking the right steps we will lose it. The strange thing – as Elmar Brok pointed out – is that we have a very strong market. We have a lot of consumers but if we are not taking the right steps we will lose the battle. So, we have to do it in another way.

What you said about foreign policy is true: Europe does not speak with one voice. Sometimes you can explain it. When we talked about the war in Iraq everybody was thinking differently about it. It was a complicated discussion. On the other hand there are also tendencies that we say that we have to speak with one voice, for example when we are talking about the climate change conference in Copenhagen. I think Europe did better there. So, we can make progress. I agreed with your message. If you talk about the future of Europe we must not have these vague formulas. We have to act, we have to be aware of the risks if we do not take the right steps. Otherwise we can forget it. I am an optimist; I can think we can learn from the past and that was also your message.

My second remark has to do with the issue of inequality. I fully agree that if you are not taking the right steps you will have enormous social consequences. That also happened in Central Eastern Europe after the change of the regime. Suddenly, a lot of people became extremely rich and about 40% ended up below the poverty level. That led to the fact that people said they cannot use the neo-classical text books but also want to talk about the civil society, about social development. It is interesting to see that in a country like India you see a middle class coming up. That is extremely important. First, people are getting out of poverty and then it is important to have a kind of upward mobility. The issue of inequality is extremely important to tackle. Countries with a more equal system also are performing better.

My last remark is about NGOs. I always underlined the importance of a civil society. You can talk about it in national terms but also on a global scale. If you are talking about the many development bills it is not just a matter of government-to-government relations; they also have to do with private sector, the business sector, and the NGOs. When I was in India I visited the Philips company. Philips is well-known for radios, TV's, bulb lights and so on. But they already completely changed their policy and they are very active in health issues. They discovered that you should act in another way when you talk about the health of people in a country like India. It is a combination of delivering the technical equipment, which is the responsibility of Philips, and trucks for medical research with a satellite connection to hospitals. The doctors were at a distance but they were busy with the analysis. The NGOs were talking to the people about using that technical equipment. So, it is a

combination of private enterprises, NGOs and local authorities. This is just a concrete example that you must underline the importance of NGOs. If you talk about the issues of today and you want to speak about how to solve things you need another approach. I mentioned Khanna who said: you can see the end of the tradition of the nation states. There are all kinds of other combinations and an NGO is one of them. So, you have to underline this. I would like to thank the WRR because it is playing an important role in this issue.

Mr. Zhang: Mr. Balkenende raised the point concerning values. Actually, there are some interesting studies on values done by Chinese, American and other scholars. All these values are important but if you look at the Chinese and the Western perceptions of values, there are differences in terms of order and sequence of values: which values do people attach most importance to? One study conducted by American scholars shows that the number one value for the Americans is freedom of speech, and the number one value for the Chinese is social order. So, there are different priorities of values. One thing that could be interesting with the rise of China is that China may push and advocate its values such as harmony, development, peace. Why is peace not a universal value? That is strange. It is not to challenge Western values, but if universal values are universal, they must be values shared by most people in the world rather than simply identified by a certain culture. Those are regional values and not universal values. This is something we can discuss, indeed. one has to consider the order and sequences of values in different cultures and their rationals.

We are talking about human rights. No country can achieve all human rights simultaneously. There must be priorities. China identified fighting poverty as number one human right. In the United States fighting poverty is not a human right. In Europe, fighting poverty is only viewed as contributing to removing obstacles to enjoying human rights, but in China this is the number one human right. If you are the leader of a province or a county and you cannot reduce poverty in your region, you are gone; you have no chance to have any promotion. Sometimes we need a bit of time to achieve better and different types of human rights.

The gap between rich and poor has increased sharply in China but it is also fair to say that in the case of China even the poor have improved a lot over the past three decades in terms of living standards. Let me give a figurative example. If you drive from Shanghai or Beijing in any directions for twenty hours, you will reach the Sino-Russian border or the Sino-Vietnamese border or the interior part of China. But you will see less poverty than you see in Mumbai when you drive for two hours. China has lifted 400 million people out

of poverty. If you check the statistics on India, its absolute number of poverty still increases because population is increasing faster. This is the scale of the progress China has made. If one looks at the statistics – and again I raise a controversial point – China's Tibet is doing better than India. If one talks about the rise of India then Tibet has already risen, in terms of life expectancy, in terms of education, literacy, in terms of what we call hardware – roads, railways, access to highways, televisions – Tibet is doing all better than India. By the way, due to historical reasons Tibet is the poorest province in China.

So, China is outperforming India. It is an example to show the China model is working. We think the Indian model has a lot of room for improvement, especially in the political system. I have been to India many times, but India is still very proud that they have a better political system and that it will outperform China one day. It is not easy, to be honest.

Another thing is the question concerning NGOs and civil society. Yes, civil society is also rising up in China, especially in the field of environmental protection. A lot of NGOs prop up in the field of education as well. What is more controversial is civil society in the political sector. In the West it is taken for granted that civil society is a good thing. But I've been to about 70 developing countries, and I have certain reservation about the idea that NGOs are always good by nature. If you look at the crises and the tragedies in Burundi, in Uganda, in ex-Yugoslavia, you see these countries had a very dynamic civil society. In many poor countries, certain NGOs are simply mafia, to be honest. We have to be frank, they change hats easily from mafia organizations to NGOs. You can find them in the slums in India, in Mumbai. So, the real situation is more complicated. In the Western concept, the state, especially in the American political culture – is a necessary evil. So, you have a civil society that checks the state or is against the state. In the Chinese culture the state is always a necessary virtue; all the prosperous times in China's long history were associated with an enlightened strong state. Perhaps we should combine our own culture and create our own type of civil society, which is emerging. I always remind those who have doubts about the Chinese perception of civil society the famous comment made by Professor Huntington: on the one hand you have political participation; on the other hand you have political institutions. The two must be kept roughly at the same level. If political participation is way higher than the political institutional building, it is a scenario for chaos and even for war. So, we have to bear this in mind and try to keep balance between both, political participation and political institutional building.

Concerning Chairman Mao, indeed at the end of the Cultural Revolution many people thought negatively of Mao. But with the passage of time, they begin to say that we should be fair with Mao. Deng famously said Mao was 70% right and 30% wrong. This is a Chinese figurative speech. It does not mean scientifically 70% and 30%; it just means he was more good than bad. With hindsight of three decades after his death, Mao remains popular, especially with ordinary people. Mao was a strong nationalist and he was the advocate of egalitarianism and he is popular in today's society where many perceive a growing gap between rich and poor. This sense of egalitarianism is very strong in the Chinese culture. When we talk about modern European states or modern European democracies, they are the products of bourgeois revolutions. But if you look at China, we experienced so many revolutions in the past; each and every revolution was carried out in the name of egalitarianism. Once a new dynasty came to power there was redistribution of land and of property. It is the first time in China's long history that we have created far more liberty and property than anytime in China's history. So, China's middle class is really in a way the most conservative class. They do not want the Western style democracy. They think if there is 'one man one vote', China will have a peasant government overnight.

This is just a background note for your understanding of China. If there is a coloured revolution it may well be red. It will be perhaps useful to bear this picture in mind and in our reflections on China's political reform. Also, now people think back about Mao, they think of two major contributions he made. One was land reform. When we talk about poverty in China, it's the farmers who have the lowest income, but they have land and have their own housing. That is much, much better than peasants in India, ten times better. Mao also initiated women's liberation. If we look at the status of women in China, according to a recent study on women entrepreneurs, four out of ten best women entrepreneurs in the world are Chinese. So, you have to treat Mao more fairly despite all the serious mistakes he made during the Cultural Revolution and other radical political movements.

Mr. Chairman: Thank you very much. This brings us to the end of the morning session. May I thank the eminent speakers for their excellent contributions from different angles with a different approach? It is really worthwhile to organise this kind of discussion.

We will continue after lunch with two sessions, one about global economic (im)balances, and one about security and scarcity of resources.

Session A: Global economic (im)balances

Chair: Prof. Dr. Jan Rood
Head of Strategic Research of the Netherlands Institute of
International Relations Clingendael

Speaker: Prof. Dr. Age Bakker, Executive Director at the IMF

Discussant: Mr. Carlo Trojan, Advisory Council on International Affairs

Jan Rood



Mr. Chairman: A very warm welcome to all of you to this afternoon thematic session. I am Jan Rood and I am Head of Strategic Research at the Clingendael Institute, Clingendael one of the co-organisers of this event. I have the honour and privilege of chairing this afternoon session and that is indeed an honour and a privilege!

We will continue our discussion of this morning by looking more in-depth at one of them in particular and that is the state of the global economy. As we all know the global economy is recovering from one of the worst economic crises since the 1930s of the last century, but as you will also have seen in the news, global recovery is uneven, and in some parts of the world it is weak. In Europe it is still weak: I only mention the latest growth figures of the UK, where negative growth occurred in the last quarter and I mention the US, which is still suffering from high unemployment. So, economic recovery is uneven and in some parts of the world very weak.

What this financial economic crisis made clear – and I think that is very relevant for the topic we will discuss this afternoon – are two things in particular. First, that specifically in the area of the global financial economic relations the balance of power is indeed shifting quite rapidly. The presentation of Professor Zhang this morning only underlined that. The balance of power is shifting and as a result the present system of global economic governance does not reflect this new and emerging balance of power any longer. That is a topic we will most certainly discuss this afternoon. Secondly, the existing global governance arrangements that we had and that we still have were not able to prevent the financial economic crisis and are and were in urgent need of modification, both with regard to their effectiveness as well as their legitimacy.

That brings me to the basic question that we are going to discuss this afternoon: what kind of global economic order is emerging as a result of this shift in power? ‘Global economic order’ in this case not only means who will be in charge and who will be the main players – the discussion we had this morning in response to the presentation of Mr. Kupchan who talked about multi-polarity as the order that will emerge as a result of the shift of power – we should also look at the fundamental principles and values defining this order. Of course, we should also discuss ‘order’ in terms of the capacity of the international community for global economic governance. That is, the question to what extent the international community as we know it now will have the institutions, the procedures, and the rules that are needed to guarantee a minimum level of cooperation in this changing international economic system. That is of course quite a challenge.

What kind of order will we have? That is the second issue that we will discuss. We should discuss the kind of order but in addition should ask what role there is to play for the European Union in this emerging global economic order? Will the EU be able to play a role at all? There seems to be some pessimism on this regard. Will it be able to play a significant role, any role at all? Will it have any impact on global economic affairs? Well, it is quite

obvious that the answer to that question depends very much on the capacity of the EU to solve the present problems in the Euro zone. It will only be able to play a role, an important role on a global scale, if we are able to sort out our present internal problems. That is quite obvious and that is also something that we will need to discuss.

When we speak about the European Union we speak of course about the Netherlands. The Netherlands is a country that is getting smaller – you might argue – in a bigger world and that by definition has a large interest in a stable and open international economic system. It is vital for our welfare and our security. What options does it have, looking at this shift in the balance of power and looking at the present state of the multilateral system? What options does the Netherlands have to promote its interests, in particular with regard to economic issues?

This is a brief introduction to the topic of this afternoon, two very fundamental issues: order and the role of Europe in combination with the role of the Netherlands.

The topic of this afternoon will be introduced by two excellent speakers. Our first speaker is Age Bakker. He will tackle this issue from the perspective of the global economy, the global system of multilateral organisations, in particular the role of IMF and the G20, and the capacity of these two bodies for global governance. He will also discuss the position of the Netherlands in the present international economic system. Age Bakker, as we all know, is the Executive Director and as such member of the Board of the IMF. In that capacity he represents the Netherlands, but also a large group of European and Eastern European states, states from the Balkans and also Israel. If we take that into account I think he is most qualified to combine a global view and an analysis of the position of the Netherlands.

After his presentation Carlo Trojan, the former Secretary-General of the European Commission and former Permanent Representative of the European Commission in Geneva and in particular to the WTO, will speak specifically about the EU, the internal problems that we have to face, and the external position of the European Union in the international system. That will not be a surprise to those of you who know him. I must add that we are very grateful that he is here, that he has accepted the invitation to give a presentation, because he was asked to do so at a very late moment as Elmar Brok was supposed to be the discussant for this part of the day. Mr. Brok could not make it, so again, we are very grateful for the fact that Carlo Trojan has accepted the invitation. After these two presentations there will be ample room for discussion.

Toward effective global governance

Address by Age Bakker, Executive Director at the IMF

Age Bakker



Mr. Bakker: Mr. Chairman, ladies and gentlemen. It is a pleasure to be here and a great honour to speak for this audience, also after a morning which has put the bar quite high. It was a very interesting morning. It is a pleasure to be here, to fly in from Washington, and to flee from the very, very cold winter we have in the US. You may think it is cold outside but when you live in the US here it is warm. I will give a different perspective of a global nature, being the representative at the International Monetary Fund.

When I took up my job at the IMF in the spring of 2007, the institution was in disarray. Commentators had argued that institutions like the IMF were relics of the past and had become irrelevant. The world economy had been booming and emerging economies were quickly catching up. International institutions like the IMF, it was said, were no longer needed. Financial markets would take care of any adjustment needed and they would absorb risks.

Now, nearly four years later we are all a little sadder and a little wiser. It is clear that the risks of financial innovations and global imbalances were underestimated. Supervision and regulation had not kept pace. Risk management at financial institutions failed. The crisis was a failure of governance, one could say.

The speed with which problems in one country impacted other countries took many by surprise, including the IMF. The financial crisis truly was a global event and it had a severe impact on the real economy. The challenge is to

learn from this crisis and make structural changes that will build a more robust international system.

The financial crisis has changed the way we think about global governance. The G20 and the IMF have been at the centre of efforts to avoid that the crisis would turn into a Great Depression. In this I think we have been successful, but the international economy is still fragile. It has become clear that we need stronger global governance structures to strengthen the international system and to avoid that we relapse in old habits.

I speak here with two hats. As an Executive Director of the IMF I will say a few words on how we see global governance from the viewpoint of the IMF. At the same time as a representative of the Netherlands in Washington, I will give you my view on how the Netherlands best can position itself and how it can contribute to more effective global governance. You will see that these two viewpoints will come to the same conclusion.

In the first decade of this century we have seen very significant changes. The crisis has been a watershed. It has swept away much of the old economic order. It has also swept away the consensus on which this was based. The crisis has impacted Europe, with the monetary union under attack. At the same time, emerging and developing economies have continued to grow during the crisis and this has redefined the balance of economic power in the global economy in a very short period of time.

As I said, the crisis was sparked off by lacking, failing regulation and a failure of supervision. What was forgotten was that deregulation needs to be accompanied by effective supervision. There was a mistaken belief that financial markets could police themselves effectively. At the same time and more fundamentally, there was an underlying cause of the crisis, where governments simply did not follow common sense policy rules. The global economic growth model relied too much on excessive borrowing by some countries, leading to large and unsustainable imbalances. In the end, the global crisis can be traced to a failure of governance, particularly in advanced countries. This has undermined the authority of the West and called into question the fabric of the old governance structures, i.e. the G7 or the G8, and it has called into question the Washington consensus at the IMF and the World Bank.

So, we need a new global governance model. A global crisis calls for a global answer. In a joint initiative former President Bush and President Sarkozy had convened G20 leaders from major advanced and emerging economies in 2008 after the crisis sparked off to give political backing to what has been a very strong coordinated crisis response of low interest rates everywhere,

fiscal stimulus in all countries, and financial sector reform. This was an unprecedented global response to the crisis. G20 countries also agreed on a new surveillance model in which members of the group would hold each other accountable for implementing policies to achieve better global outcomes. The basic idea is that there can be no domestic solutions to problems that have global spillovers.

So, we have to realise that what came out of the crisis is a new form of governance at a global level, one might say a nucleus of global governance where the IMF provides the analysis, the policy recommendations, and early warnings, all based on its long-standing expertise, and the G20 provides the political backing, peer pressure which is needed for coordinated policy responses, and strategic guidance and timelines.

The IMF plays a crucial role in this new governance model, which of course is focused on financial economic policies. The magnitude of the crisis and the greater role of the G20 brought the IMF back to the centre stage.

The IMF's resources were enlarged, its lending toolkit modernised, and conditions on lending were focused on solving urgent problems and not on fixing everything wrong with an economy. There has been a lot of criticism in the past on conditionality and the IMF has learned from errors in the past. There was more attention for protecting the poor who – as we all know – suffer most during crises and periods of adjustment. In a departure of the past we now also have precautionary credit lines, meant as a crisis-prevention tool, where we give credit lines to countries with a strong policy track record, like Poland and Mexico.

Beyond crisis management, surveillance needed strengthening, including in the framework of the G20. We have agreed on regular financial sector assessments by the IMF that were made mandatory for all systemically important countries.

A stronger role for the IMF would not have been achieved without reforming its own governance. Until recently, the IMF was seen as stronghold for rich countries. On this graph you see the present day situation with on the left the top ten of the countries that have the largest votes in the institution. As you may gather, there has been a long standing perception of over-representation of advanced countries, particularly European countries. Member countries can form constituencies. The Netherlands are number 12 as far as voting power is concerned. Together with the other countries in the Dutch-led Constituency, we represent number 7 in the institution. If you look at the top ten of constituencies, there are quite a number of Europeans including from small advanced countries like Belgium and the Netherlands.

Built on an earlier reform at the IMF, we have just approved a shift of over 6 per cent of voting power to dynamic emerging countries. Brazil, China, India, and Russia will now be among our top ten shareholders. If you look at the left you see that the top ten is now composed of the United States and Japan, the four largest European countries and the four BRIC-countries, Brazil, Russia, India and China. That is a much better reflection of the balance of economic power. Of course, one could argue – professor Zhang would undoubtedly agree with me – that China should be in second place, but time is on its side. China will not take very long before it overtakes Japan. These things take a little bit of time. But the shift in the say of the IMF is really a watershed.

We also see the implications for the Netherlands. You may have noticed that in the previous slide we were number 12 and we will go down in the new situation to number 15. We will be overtaken by countries like Spain, Mexico and Brazil, which were below us. I think this is all well understood and long overdue. But you will also see that we will fall out of the top ten of constituencies and become number 11 instead of number 7. So, these are sizable power shifts. If you compare this to the UN system these are really very big changes. It shows that the IMF has learned from the crisis and is a learning organisation. In many respects, I believe there is a new IMF.

Moreover, it was decided to increase the representation of emerging markets economies at the Executive Board. This rebalancing of the say in the IMF has largely been made possible by advanced European countries.

So, we do have better governance structures in place, with the G20 at the centre and a stronger and more legitimate IMF with better governance reflecting the shift of economic power. But it is too early to say whether this will be successful in lowering the chances of future crises. We have now entered a post-crisis environment, even though the effects of the crisis are not yet over. Countries face different challenges and the temptation for leaders to focus once more on their own domestic problems is growing stronger. One cannot rule out that after an energetic start the G20 may fall back in irrelevance. There is a risk of complacency.

I believe this is dangerous. The international situation is still fragile. We have a two-speed recovery where some countries are growing fast, while others are still stalled. We have an imbalanced situation with a dangerously high fiscal deficit in the US and an undervalued exchange rate in China, with inflation edging up in emerging countries because of rising food and energy prices, and with a fragile situation in Europe. There are still many challenges out there and I believe these call for continued international cooperation. If we do not succeed in this, we risk falling back in beggar-thy-neighbour policies that

lower global economic growth and add to financial uncertainties. We all have an interest to avoid this and particularly an open economy as the Netherlands.

The Netherlands is one of the founding fathers of IMF and World Bank, and of course of the EU. We have always strived for a strong representation in these institutions, because as an open economy, dependent on international trade, we have a vital interest in a stable international system. This outward-looking attitude has been a constant in the post-war years. However – as was noticed this morning – more recently, such an attitude can no longer be taken for granted. Commentators question the costs, also for the Netherlands, of taking international responsibility. They rightly want to understand what the Dutch interest is in retaining a strong representation in international institutions.

All this calls for a strategic reflection on the international position of the Netherlands. For this, we need to have a clear picture of what the Dutch interest is in having a strong presence: what is our added value? Can we rightly claim a strong position and why would we do this? How can we most effectively pursue our interests?

The Dutch interest in a well-functioning and stable international system becomes clear when we realise where the Netherlands owes its prosperity. The Netherlands is a medium-sized or small open economy with internationally oriented companies and we have a major financial sector. Our industry has to compete against competitors with a much larger home market and we are therefore highly dependent on external developments. We should also realise that the Netherlands traditionally has a balance of payments surplus and thus is a structural creditor country.

As a trading nation and as a creditor country, as a financier for the world, we are highly dependent on a healthy world economy. Therefore, we have an interest in the contribution that international organisations can make to maintain a stable system. The global financial crisis has shown how much we are hit by policy failures in other countries. They have a direct impact on an open economy like the Netherlands. So, we have an interest in strengthening global governance; we have an interest in strengthening the position of international institutions like the IMF. In short, we have an interest in effective global governance, because this aligns with its own growth model. It aligns with the Dutch business model.

We also have an interest in transparent rules. This came up in the Q and A session this morning. Our financial and trading interests in other countries are best safeguarded by non-discrimination, by rules which are overseen by strong international institutions. In the absence of this, the large countries will

decide among themselves and this is not necessarily in the interest of an open economy like the Netherlands.

And we have a strong interest in monetary and financial stability and therefore for a disciplinary role of the IMF, the IMF as a ‘bad cop’. We also have an interest in international institutions that push for structural reforms, for adjustment and now push for sound fiscal policies. We have seen in Greece and Ireland how much this is needed. Europeans among themselves could not discipline each other.

The Netherlands also has something to offer. What is then our added value? I believe we can credibly advocate strong global governance because we ourselves pursue sound policies and we have no major geopolitical interests. The Netherlands has a successful economic model and we nurture an open business climate that can take advantage of the global market. This differs – I can speak from experience – from the large countries, which tend to not apply the rules for themselves and are inclined to use international institutions for their own domestic interests or as an instrument of foreign policy.

The relatively large weight of the Netherlands – as was mentioned this morning – in the IMF reflects our importance from an international perspective. We stand out in the sheer size of our cross-border activities. In trade we share fifth position with France, after China, Germany, the US and Japan. We are also number five in foreign investment. Actually, in the US we are the number three foreign investor. And we are a large financial centre, ahead of countries like Canada and Spain. And we are a very big provider of development assistance. In terms of gross domestic product, the Netherlands is now in sixteenth place, just after the G7, the four BRIC countries and Saudi Arabia, Korea, Spain, and Mexico.

On this slide you see our financial interconnectedness. This is a sheet used by the Managing Director just after the financial crisis to show where the interconnections were. On the bottom left you see the Dutch flag; we are one of seven banking systems that have the most international connections and thus are very vulnerable for instability in the world. You might be surprised by the small size of the American flag; that is because the graph shows interconnectedness through banks and as we all know the US interest in the financial system is more that of shadow-banking. If I would show the same picture for shadow banks the US would figure number one by far and other countries might come up, like Luxembourg.

But this position is under pressure. We should also realise that a large part of trade is within Europe, with neighbouring countries. So, the argument from the other side of the table when we show these figures is ‘let’s forget about

intra-European trade'. We should not forget that the GDP of the Netherlands is about the same size as that of Florida. We used to be California; now we are Florida.

Our position is under pressure. One major trend is that the relative economic weight of the Netherlands will decline. This is a very simple outcome of limited space and population. For quite a while we will stay in the top twenty as far as our GDP is concerned, but in the longer run we will be overtaken by more populous and more rapidly growing countries like Indonesia, Poland, and Turkey. These economies will overtake the Netherlands in a short period of time. We should also realise that the distance from the top ten is rapidly getting larger as we are being overtaken by more populous emerging economies. Also, there is a push in the IMF for basing our weights just on GDP and not on measures of openness. This would further erode the position of smaller open advanced countries. So, our position is under pressure.

I believe the Netherlands is well advised not to wait or defend vested interests, but to take a proactive and constructive attitude, which reflects the changed reality. We need to look for innovative ways of ensuring that European and global developments remain well-aligned with our own national interest. What should be our strategy? It seems to me that we should follow a three-pronged approach.

First, we should nurture a special relationship with Germany and the US. Second, we should promote one European voice, and third, we should form strategic alliances and partnerships with likeminded countries. I will go through all of them.

First of all, I think we should retain close ties with Germany and the United States. Germany has a special position for the Netherlands. Of all large countries it is most similar to the Netherlands. It is a leading trading nation; exports as per cent of GDP are the highest among the G7, so it shares the openness with the Netherlands. Secondly, their government debt to GDP-ratio among the G7 is the lowest, so it is the most fiscally sound country. This aligns with the Dutch preference for fiscal discipline. Also, Germany has a structural external surplus; they are a creditor country just like us. Among the G7 Germany is by far the country which looks the same as the Netherlands, the Netherlands times four or five. More generally, Germany embraces an economic philosophy, which aligns well with the Dutch culture of fiscal discipline – 'de kost gaat voor de baat uit' – price stability, fostering social cohesion through fair income distribution – this is also in the German model – and of course a willingness to shoulder international responsibility, as Germany has shown time and again in the post-War years towards Russia, towards Eastern Europe.

Next, the United States is another natural ally for us. Of course, it is a much larger country but still we need to nurture the special relationship we have with very large financial interests from both sides in one another. The US is the largest investor in the Netherlands and we are the number three investor in the US. Also, our special position in the euro area makes us an interesting partner for the US. I will come back to that.

Second, as one of the most open countries, the Netherlands has a major interest in the well-being of Europe and a well-functioning euro area. Europe provides us with the home market we do not have. Europe provides us with a large market and it has brought us prosperity. Dutch interests coincide with the European interest. Therefore, the Netherlands would be helped by Europe speaking with one voice if we want to strengthen the international system. Having one currency means we need to speak with one voice in the international monetary system. This would help balance the international debate, which is now completely dominated by acrimonious exchanges between China and the US. It would also help further global governance if Europe would speak with one voice.

The creation of a euro area seat within the IMF would in itself have the potential of better reflecting the role of the euro in the international system. I would be in favour of that but this is a matter of time, as it clearly is not in the cards at the moment as long as the large countries are opposed to this and as the member states themselves finance IMF credit. Moreover, the major European countries are not at all interested in giving up their seat. I personally believe that a joint Franco-German – France and Germany together – seat in the IMF would be a strong signal. It is interesting to know that when our present Managing Director, Dominique Strauss-Kahn, was minister of Finance in France, he actually had advanced going together with Germany in the IMF and the World Bank. It would be a very strong signal but it is unlikely as long as these countries take divergent positions. That, unfortunately, is the case.

So, we need to be pragmatic and find other ways of playing a larger international role, which is commensurate with our economic weight in the international debate. I see an agenda of three issues. First, we need as Europe to develop closer ties with the BRIC-countries. We should not do this bilaterally. As long as European discussions with major emerging economies continue along bilateral channels, the discussion will remain dominated by the United States. And that is not in our interest, nor in China's interest.

Second, Europe should develop a clear future for Eastern Europe. Of course, such future existed: Eastern Europe would become a member of the European Union and would then have the horizon of joining the euro area. But now politicians in Eastern Europe have the feeling Europe is a closed shop because

we do not have our house in order. We should develop a clear agenda for Eastern Europe; otherwise other countries will step into the void, like Ukraine, Russia, and Turkey. Other things might develop there.

Third, Europe should modernize its relationship with developing countries. The old model of giving a lot of development aid has not helped increase economic growth that much. We see that emerging countries like China and Brazil take a more business-minded approach. We are well advised not to criticise that but to work together and to see that our interests are getting aligned.

This is an agenda for Europe. Of course, for this we need to put our own house in order, as has been said. I hope we can achieve that. We need to accept that in these debates we need to defer to Europe speaking with one voice. We have European leaders and we should let them speak with one voice.

I believe that the Netherlands is in a good position to play its role. I agree very much with the speakers this morning: we should play a more proactive role in plotting the way forward for Europe. We do not do that but we can; we have the confidence of Germany; we share with France the international orientation and we have, like the United Kingdom, a liberal market orientation. We have all characteristics of an honest broker. We share the German preference for discipline but we also share the French preference for using international institutions. So, the Netherlands has all the characteristics of an honest broker. I believe our role – also recently – in working on the European stability mechanism testifies to this.

As a third approach, next to maintaining close ties with Germany and the United States, and next to building a strong European voice, I would propose that we seek cooperation with like-minded medium-sized countries in a similar position and with similar interests, within but also outside Europe.

My experience in the IMF is that small countries generally take a much broader view and are more supportive of strong independent international institutions. Large countries on the other hand tend to give priority to domestic interests and are less inclined to support international cooperation.

Seeking strategic alliances can be useful for specific policy issues for a specified time period. To mention one example, the Netherlands took a very strong position on bonuses in the financial sector but with the benefit of hindsight it might have been well advised to seek alliances with likeminded countries with large financial sectors in relation to their GDP.

In my capacity as Executive Director, I have sought several strategic alliances in the IMF over the past years. Some of them have been very successful. We worked together with the South East Asian chair – Indonesia, Singapore, and Malaysia – on getting a stronger financial stability role for the IMF. Up till the crisis countries like China and the US had not allowed the IMF to scrutinise their financial systems; now they have accepted this as mandatory.

There was considerable reluctance among larger shareholders but the combined effect of smaller industrial countries and outward looking emerging economies is powerful. So, I believe we should look also outside Europe and form alliances with modern emerging economies, such as Korea, Malaysia, and Singapore in Asia, and Chile and Peru in Latin America.

Let me narrow down what the strategy should be for the Dutch representation at the IMF. Let's take a look at our current representation at the IMF. Unlike the UN system with its one country - one vote system the voice of countries in the IMF is determined by a broad definition of economic weight that includes also external activities. The ranking order is a very important political measure. Therefore, it is not surprising that countries attach a lot of weight to where they are. As a matter of fact, eight countries take a single chair although they could form a constituency.

The specific electoral system of the IMF has provided the opportunity for the Netherlands and other smaller European countries to form a very large chair. I represent twelve other countries in the IMF and that makes us now number 7 with a vote of 4.5 to 5 per cent.

Generally, our constituency is considered as a successful example of international cooperation, because we combine creditor and debtor countries. We now have seven programs in the IMF – Ukraine, Romania, Bosnia, Macedonia, Moldova, Armenia, and Georgia, all countries I represent and countries with a large political weight – and we are by far the most intensive user of IMF credit.

However, other Directors around the table see too many Europeans. At present one third of Directors is European. Europe has agreed that this needs to change and has agreed to bring back the number of European seats by two in 2012, providing room for emerging economies. I believe this is also in the Dutch interest as the IMF will gain more ownership and play an enhanced role when it has a better balanced representation. But for us this means we are under pressure.

So, we need to seek partners in the IMF. Here we are proactively investigating the possibilities for a partnership in the IMF with likeminded countries and so contribute to the consolidation of European seats in the Executive Board. It seems to me that there is a strong case for closer cooperation with like-minded small European countries, like Austria, Belgium, Switzerland, and the Nordics. They are all also open economies with sound economic policies, a proven willingness to reform and with a constructive attitude towards international cooperation. As small countries they have all learned to adapt flexibly to a changing world.

In building a new chair I would advocate that we continue to involve Eastern European economies. These countries now experience a difficult time but in the long term they provide the best growth prospects in Europe. A mixed constituency would enhance the added value in the Board.

A consolidation of European chairs will make Europe's voice more effective, it will improve the feeling of ownership among other emerging and developing countries and thus enhance the role of the IMF. At the same time we have to be realistic: the IMF itself does not have the political leverage to force policy coordination. For this we need political support and ministerial engagement because there is little evidence that large countries are willing to create an IMF that will tell them what to do.

So, there is a much wider interest in all this. A consolidation of advanced European seats will enhance the chances to align the G20 with the composition of the Executive Board and the IMFC. This would raise both the legitimacy of the G20 because it would have a wider membership, and strengthen the role of the IMF. It would thus further build on the nucleus of global governance, which we had seen born after the financial crisis. It would also provide for a right balance between effectiveness, for which the number of countries around the table should not be too large, and legitimacy.

Let me conclude. As an open economy there is no alternative for the Netherlands than taking an outward-looking attitude and advancing international cooperation. Our interests are well-aligned with those of the international institutions.

We have been willing to shoulder international responsibility, financially and otherwise, and therefore, we have the right to be well represented. However, an independent strong position for the Netherlands is no longer self-evident, neither is it effective. Therefore, we better join forces with likeminded countries.

We need to reorient our policies in light of the changed world situation. The interests of smaller countries differ from those of the large countries, which benefit from larger home markets and have a tendency of focusing on national champions. We have rightly learned that it is more constructive to not focus on national champions but to let economic history takes its course.

Maybe we can learn a little bit from the international Dutch corporations, which have a long history of seeking strategic alliances across borders depending on developments and in seeking partnerships. Companies like KLM, Philips, and Unilever are on a constant move. Maybe the Netherlands government should take a similar attitude by seeking strategic alliances.

I have argued for a three-pronged approach. First, maintain close ties with Germany and the United States. Second, work towards a Europe which speaks with one voice and third, seek strategic alliances with likeminded medium-sized countries in Europe and outside Europe. If we take this proactive attitude we can actually contribute to the forging of stronger global governance. We have an interest in this, even if it implies that we will have to give up some of the privileges we have enjoyed over the past decades. Thank you very much!

Mr. Chairman: Thank you so much for this very clear presentation. You gave a wonderful overview of the state of global governance, in particular the nucleus that you described between on the one hand the IMF and G20 as a new way forward with regard to solving a number of international problems. I think that is a very important observation. Secondly, without asking anything in return you gave the Dutch government some advice on how to handle, how to deal with its own position, taking into account the shifting balance of power in the world economy. I hope that the people of the Foreign Office and the Ministry of Finance have listened carefully, because now they have the strategy for the future! Thank you so much for that!

Let me now give the floor to Carlo Trojan.

Address by Carlo Trojan, Advisory Council on International Affairs

Mr. Trojan: Thank you, Mr. Chairman. First of all, many thanks to Age for his very thoughtful and comprehensive presentation, which gives us a clear insight in the new world of IMF in a changing world order and also an insight of what the Dutch perspective might be in that context.

As you said, my main focus will be on the European perspective. Nevertheless, let me echo some remarks of Age on the Dutch perspective. As has been said, the Dutch economy is highly dependent on export markets. External trade and



Carlo Trojan

foreign investments is the lifeline of our economy. An open EU internal market and an open rules based world trading system are conditional to our welfare. Exports of goods and services correspond to over 70 per cent of Dutch GDP. We are substantial net exporters and important providers of FDI. Some 80 per cent of Dutch exports go to EU countries and a lot of that to Germany, hence the importance of an open internal market and a stable euro. These are both two sides of the same coin. Flirting with the break-up of the eurozone is from a Dutch perspective playing with fire. I am not sure that all Dutch politicians and the media are aware of this. Euro scepticism and crisis-speak seem to go hand in hand while ignoring the fact that the euro has been highly successful.

In terms of price stability the euro has been a success story, keeping the inflation below or around 2 per cent in 11.5 years. If you compare that with the decennia before it is quite an unprecedented success story. The eurozone is the largest market in the developed world; the euro has become the world's second most important currency. Without the euro – we tend to forget that – the effects of the financial crisis in Europe would have been far greater. One can say that the euro by now is at the heart of European integration. President Sarkozy in his more Napoleonistic way made this point abundantly clear in his speech in Davos. He said very clearly that the euro is Europe.

Jürgen Stark, member of the Governing Board of the ECB, was quite right in stating that we are not dealing with a euro crisis but with a sovereign debt crisis and with the consequences of inadequate economic reforms in the eurozone. Mr. Balkenende also made this point this morning. If we look at the banking side, we see that the ECB played an exemplary role in lowering interest rates and coordinating and providing liquidities to the banking system. In fact, in hindsight to the period of crisis, we see the ECB has been the most efficient of all EU institutions.

No doubt there were serious weaknesses in the financial sector. Banks were severely hit and the public sector had to provide unprecedented financial support, over and above the massive fiscal stimuli to cope with the worldwide recession. The exposure of the Dutch financial sector was huge, its bail out amongst the most important in Europe.

But the financial crisis has also triggered an unprecedented supervisory and regulatory repair of the EU financial system. We now have a more efficient EU macro- and micro prudential supervision, more and better capital in our banking system, and we have extended regulation of financial services to equity, to hedge funds, and so on; highly ambitious by some accounts, insufficient by others but by all means unprecedented by any standards from before the financial crisis. What is for sure is that deeper integration of the financial system has been the result of the crisis. We have seen the same phenomenon in previous crises in the European Union.

The effects of the financial crisis on public finances are well known and at the heart of the sovereign debt crisis. The EU budget deficit in 2010 is at 7 per cent, the public sector debt approaching 80 per cent of GDP, and Greece and Italy have debt ratios well above 100 per cent. Debt levels have increased by 20 percentage points in the last two years, which is quite a bit.

The root causes of the present situation – a point made by Mr. Balkenende this morning – go back to the poor enforcement and even weakening of the Stability and Growth Pact in better times and the lack of a robust mechanism for far-reaching budgetary coordination in order to address serious macro-economic imbalances.

To safeguard the stability of sovereign debt markets the EU has created two new lending facilities for eurozone countries in distress. The European Financial Stability Fund (EFSF) of 440 billion euro – supplemented by the 250 billion euro IMF commitment – and a lending facility run by the Commission of 60 billion euro. The process resulting in these decisions and the subsequent bailout of Greece and Ireland have been pretty messy, sending

conflicting messages to the financial markets. High government officials apparently had more eyes for their domestic audience than for the adverse effect of their statements on financial markets. Eventually it was up to the ECB in calming financial markets through its unprecedented massive buying up of bonds from peripheral eurozone members.

For the short term markets will require a more comprehensive approach combining a more effective and permanent Stability Fund and a significant strengthening of the EU fiscal surveillance. Overhauling the bail-out fund and a possible revamp of Greek and Irish bail-out as well as more austerity measures and intensified economic cooperation may be part of a package which is being discussed at the informal European Council in Brussels. Final decisions for such a package can be expected at the March European Council, which may restore a more lasting confidence in financial markets.

For the medium and longer term more far-reaching decisions will be required. The firepower of the eurozone rescue fund may need a further increase, more innovative ideas as debt restructuring and collective Eurobonds may need to be considered, and above all an effective coordination of economic policies with the necessary introduction of structural reforms should be instituted. This requires full implementation of the institutional architecture for the coordination of economic and fiscal policies but possibly also revisiting some of the key principles of the EMU. That might even entail further Treaty revisions.

This is a tall order, especially in current circumstances where populism and eurosceptic policies seem to prevail. The price for success may be that we will have smaller margins in national socio-economic policies, and even that countries like the Netherlands and Germany will be forced to pay a higher interest rate in order to help the overall economic stabilisation in Europe. Eventually Member States will be forced to pay that price in order to secure the stability of the euro, an effective internal market, and an overall EU strategy for sustainable economic growth and job creation. A few years ago the very concept of economic governance was like swearing in the church. Today, economic governance tops the agenda and will be discussed at this very moment in a special informal European Council. The European Commission tabled a comprehensive strategy document – Europe 2020 – to deal with policies to boost competitiveness and the need for much stronger economic policy coordination together with proposals on a much stricter fiscal surveillance. It deserves a better fate than the Lisbon Agenda. Too often grand designs failed to be implemented in practice in the past. To get there will require leadership similar to the one we had in the early days of EMU, the trio of Kohl, Mitterrand, and Delors. But it also requires a more effective decision-making process.

In coping with the financial crisis and the sovereign debt crisis we have seen by times a rather ineffective decision making process, both in crisis prevention and in crisis management. We have observed much improvisation and confusion between the different institutional actors. There we have the European Council and its Permanent President, the Commission and the President of the Commission, the Euro Group and the President of the Euro group, the Ecofin Council with a rotating Presidency, recently the EFSF and even the IMF nowadays. On top of that we have a leading role of the larger Member States. I think the couple Sarkozy-Merkel by now consider themselves to be an institution in their own right. Some question marks can be put there.

During the crisis the main factor of stability has been the action of the ECB with the Commission taking a backseat position operating in the shadows. While the Commission remains instrumental in tabling the necessary legislative proposals for strengthening the financial system and the EU fiscal surveillance, it is left out in the discussions on the strengthening of the euro bail-out facilities. In fact, this takes place amongst a select group of officials from the five or six triple A eurozone members. The intergovernmental element in the decision-making process has become more and more dominant. Maybe this is part the consequence of the fact that we are dealing in the grey zone of shared competences. Nonetheless, leaving out the Commission does not necessarily contribute to a greater effectiveness, but maybe as a former Commission-official I am somewhat biased in that respect. But my overall impression is that the EU is at pains to put its financial and economic house in order and this does not contribute to strengthen the EU credentials abroad.

It may be true – as Age said – that the EU was instrumental in the creation of the G20. It is equally true that the European voice at a global level is not commensurate with its financial and economic power. The EU is by far the greatest provider of FDI and ODA. It gives more than half of the development assistance in the world and it is one of the major trading partners. In foreign and security policy the EU as a whole does not play a role of any importance at a global level notwithstanding the creation of a High Representative and Vice President of the Commission and an External Action Service (EAS). So far, I regret to say that the role of Lady Ashton has been marginal; the setting up of the EAS has been a continuing story of internal turf battles. I am afraid it is an illusion that the EAS will develop into a genuine and effective EU diplomatic service. The very construction of a double-hatted EU foreign policy supremo was bound to fail from the outset, at least in my view. Foreign and security policy are at the heart of national sovereignty and Member States, particularly the larger ones, will not abandon their say in world affairs. This was made abundantly clear with the statement by France, the UK, and Germany reacting on the protests in Egypt. Lady

Ashton was nowhere and the Permanent President of the European Council, Van Rompuy, was equally absent. While it is unlikely that the EU will develop into a political power in its own right in foreign and security policy, the EU could play a much larger role in the international debate on global finance and economics.

Age Bakker rightly says that one strong European voice will help better global financial and economic governance. The emergence of the G20 and a stronger role of IMF in crisis management and prevention have created a new forum of global governance. There is no doubt that the fragmented external representation of the EU – Euro zone weakens the Union's and the Member States' voice in global decision making.

To start, the EU has to put its own house in order. Bakker is absolutely right in underlining this. Secondly the EU - eurozone should have a clear cut common position and uniform, if possible single, representation in international fora, as is the case in world trade talks. This implies that Member States, which are overrepresented both in G20 and IMF, have to take a step back to the benefit of the effectiveness of the system as a whole. The most likely European voice would be the President of the European Council working hand in hand with the President of the Commission. The latter is in any event the exclusive EU representative in trade matters, as was also the case in the G7-G8 context. A single European seat in IMF may not be in the cards for the reasons advanced by Age Bakker, but some rebalancing in reducing the number of European seats is certainly warranted. With the French Presidency of both G20 and G7-G8 we should have a window of opportunity towards a more effective EU representation at a global level. It should also open the way for a more proactive EU role in relation to China and other emerging economies. The power shift in global financial and economic affairs goes well beyond the mere bilateral relation between the US and China. In dealing with the global (im)balances and power shifts in the world one should not forget the paramount role of an open and rules based world trading system. The Doha round of WTO trade negotiations enters in its tenth year. It is imperative to conclude this round during 2011. A recent paper by Peter Sutherland – the former Director General of WTO – and of the very reputed Professor Bhagwati makes abundantly clear what is at stake and what global benefits would derive from an agreement. From a technical point of view negotiators are pretty close to an agreement. They were already pretty close to an agreement when I was still in Geneva but there is no relation with my leaving there! What is lacking is sufficient political drive at the highest level to get there. The EU should take advantage of its G20 Presidency in pushing for a speedy conclusion of the Doha-round. Moreover, the EU is well placed to broker compromises between the US and emerging economies.

Let me conclude with a few remarks on the Dutch perspective. I share much of the comments made by Age Bakker. As an open economy dependent on international trade the Dutch have to be outward-looking and rely on European and international institutions. No doubt about that.

The Dutch Scientific Council for Government Policy – a co-organisator of this event – rightly earmarks the EU as the dominant area and appropriate channel to pursue Dutch vital and extended national interests. In order to do so it must exert influence and excel on substance. That is certainly the case in financial matters where the Dutch can rely on high level expertise and efficient networks in both the Finance Ministry and the Dutch Central Bank. One has, however, to acknowledge that since the referendum- and more recently with a government coalition, which has to rely on an anti-European party-our role and influence in European affairs has been eroded. Moreover, the European Council has become the central decision making institution. By now EMU-related matters have become ‘Chefsache’ in most of our Member States. This has consequences both internally and externally. Whatever the formal responsibilities in the Dutch government, the Prime Minister has become the principal actor and should be serviced as such by the administration to enable him to perform effectively at the European level. It also entails a more proactive role of the Prime Minister both in bilateral contacts and in the European Council itself. To play a role at those levels one has to be constructive, sound on substance and to build alliances. Age Bakker is certainly right in stressing the importance of Germany and like minded Triple A countries in the eurozone. It is equally important to build bridges with Paris, something rather neglected in the past, hence, our ‘Anglo-Saxon’ reputation in the South of the European Union. We should not shy away from Benelux-initiatives, which could make a difference in EU 27. Bringing in the European Parliament, which has enlarged powers with the Lisbon Treaty, may also be helpful at times. Close ties with the US are certainly necessary, not in the least in IMF, but ultimately the overall European interest has to prevail.

Last but not least we should realize that European negotiations are a ‘give and take’ exercise in which medium-sized countries like the Netherlands cannot go on ‘offering too little and asking too much’. Thank you very much!

Mr. Chairman: Carlo, thank you so much for this very interesting overview of what is needed to have a real stable eurozone in the long term and with that a real stable Euro economy. I have one observation about the point you made about how fast the mood in the European Union is changing. Economic governance was a word you were not allowed to use, certainly in this country, one year ago. Now it is on top of the agenda. That only indicates that perhaps

we should not be too pessimistic about the future of the European integration process, because the mood can change quite rapidly!

With that I would like to open the floor to discussion. Many topics have been raised, from global governance to internal coordination of EU policies within the Netherlands itself. So, you have no excuse at all to not take the floor.

Discussion

Mr. **Wijnants** (University of Amsterdam): I think that no one here will disagree with me when I say that the euro has brought the Netherlands, the European Union and the global community much good. However, it is a union of states who run their economies in different ways. You cannot argue against the proposition that the Southern states like Greece, Italy or Spain treat their economies in a different way that we do in the Netherlands, Germany or in certain Scandinavian states. How does the IMF think about the possibility of a separation between a northern euro and a southern euro?

Mr. **Chairman**: This is the debate about a two-speed eurozone. We take three or four questions in the first round and then have a second round.

Mr. **De Zwaan** (Clingendael Institute): I have a question for Age Bakker. When positioning the Netherlands in the newly reformed IMF, you were hinting at cooperation with Germany and the United States, at Europe speaking with one voice, as well as at creating coalitions with like-minded other countries. However, I wonder, where is the European Union in your opinion? If the EU could have a strong position and is able to play an important role, my idea would be that there is less room for an autonomous Dutch position. So, what is your view regarding the position of the European Union? In my opinion the EU-dimension could -and should- be one of the main tools in the hands of the Netherlands.

And, then, Carlo Trojan, you said that Lady Ashton has a very difficult role to play. I agree. I am tempted to say her function is more a 'label' than a guarantee for the establishment of a common approach. Nevertheless, the dilemma she is in -chairing the Foreign Affairs Council and holding the Vice Presidency of the Commission- could that not bring something positive to the extent that she also possesses that coordinating role -within the Commission- with regard to all external EU policies, which is quite an important task. Therefore, if she would be able to develop a sort of interdependence, a consistency, with the work of the Council with regard to foreign affairs, could that not have a positive impact? I am talking thus about the impact the 'ordinary' EU policies can have on foreign policy, and vice versa.

Mr. Voorhoeve (AIV): I have a question to Mr. Bakker. Something struck me in his list of most important countries and voting rights. From a global perspective I think it is logical to try and shift as much responsibility to the largest countries and make them co-responsible for the maintenance of the international monetary system. It is strange to have Italy at the seventh place and India at the tenth. India will be the biggest country in the world by the middle of this century with 1.6 billion inhabitants. It has a growth rate of 6-7-8-9 per cent a year. We have focused – and rightly so – on the dynamics in China but in our interest to promote a stronger role for India. It is the biggest democracy.

Mr. Van Baar (Journalist HP/De Tijd): I have a question to Mr. Bakker. He mentioned something about the Washington consensus. Since the financial crisis there seems to be no consensus anymore about the Washington consensus. This is what I read in the papers as well, as for instance there is no consensus about the neo-liberal model anymore, et cetera. Probably there is consensus about that. But what is this Washington consensus really about? I thought the financial crisis in a way confirmed that international or global capitalism is still very strong in the sense that there is ‘no free lunch’ for anyone, not even for the US. In that respect one should think that the Washington consensus counts for everyone. I have not heard any alternative for that. For the sake of discussion and for the sake of clarity and transparency is it not better to say that the Washington consensus has proved its vitality by the financial crisis and that it shows that even the US has to adapt its economy to the global financial and economic system?

Mr. Trojan: To start with the two-speed eurozone: keep dreaming! In no way that will happen. But you were right in stressing there is some difference in the way member states run their financial discipline and that there are some differences in the competitive situation of member states. As far as fiscal discipline is concerned: if we would have implemented the Stability and Growth Pact from the outset we would not have been in the situation where we are now. We are trying to remedy that with much stricter fiscal surveillance and stricter sanctions.

On competitiveness the large programme of the European Union is to pick six or seven policies to increase competitiveness overall of the eurozone, including the necessity to create a completely free and open internal market, which is not yet the case in many services, and so on.

What also will be necessary – and that will be very difficult politically – is what now has been tables also by the French and the Germans is to have harmonised structural reforms. We need structural reforms in the pension system, structural reforms in the labour market, et cetera. It is a very tall order but in my view it is unthinkable to break up the eurozone. So, member states are bound to go into this direction. In ten years' time we will see that as a result of the crisis we will have a much deeper economic and financial integration than is the case at present.

In response to Mr. De Zwaan's question I have to say that we are one year now from Lisbon Treaty. If I compare the effectiveness of this one year with a single High Representative annex Vice President of the European Commission I can tell you that the tandem Solana-Patton was far more effective than the present situation. They worked very well together. Solana worked behind the scenes and he had quite some impact in Washington and elsewhere. I am not sure that Cathy Ashton has the same impact at this very moment.

Second, I said that from the outset the construction was meant to be a failure. If you look only at the external representation duties of the High Representative: there about 180 treaties in which at the level of ministers of foreign affairs there are regular contacts between EU and other countries. Obviously, she is not able to do all that. Moreover, she is also chairing the Foreign Relations council. Do you that time wise she is in the position to coordinate with external trade, with environment, and so on? I do not think so. Maybe it will be better in future. On top of that, there is also the President of the European Commission, one source of turf battles. There is also the President of the European Council, another source of turf battles.

I hope that you are right and that things are better. Have you ever looked for instance at the organigram of EAS? That is really a Mexican army! There is a large number of Director Generals and Deputy Director Generals. Every Member State and new Member State has to get their Director Generals. It is a very heavy construction with in-built turf battles and at the moment not very much is coming out of that.

Mr. Chairman: I think we should bring in the 'bad cop' of the IMF to do something about this!

Mr. Bakker: Thank you for a set of very pertinent and very good questions. The first was on the IMF's view on the European Monetary Union. The IMF has always been very excited about the European monetary project and has been very much in favour of it. We are there to help the membership. We are a serving institution and the IMF has a great interest in preserving the unity of the euro area and to help the countries there. It is true that the bar for participants is somewhat higher than the participants themselves expected. I have the feeling that some countries were very good in strong policies before joining and that after joining they had the feeling that they were in paradise. That, of course, is not true. We know this as the Netherlands because we have always fixed our currency and we know it is always a struggle to keep up competitiveness. That lesson has been learned in a very hard way. It is a pity that Europe has not been able to pre-emptively solve this itself. The surveillance, the economic governance of the euro area was lacking. Countries should have been warned earlier. The IMF has been called in maybe a little bit on the late side as a 'bad cop' to try and bring about structural reforms to save the Union. I agree with Mr. Trojan there is no alternative there.

Mr. De Zwaan asked where the European Union is. I made the point that Europe should speak with one European voice. I did not want to get too much into institutional matters but let me mention a few points. In the framework of the IMF an obstacle for the European Union seat in the future is that some countries are part of the euro area and others are not. Actually, at the moment this is also blocking progress towards a euro area seat because why would France give up its position if the UK would not? So, in practice this is quite an obstacle and that is why I pushed the idea of a euro area seat a bit more. There, I feel it is a matter of time. I do not know how long it will take but I think it would be a logical conclusion. But some countries will have to swallow their pride because others will then not be in. By the way, the European Union cooperates a lot in the IMF. We have a European Union group – not a euro area group – and we meet at least twice a week. We give common statements, so in practice we work together quite a lot. But you know that I also represent non-European countries, so we sometimes add view points from the other side as well.

Mr. Voorhoeve thinks it a little bit unfair that India is below Italy. Let me not go into my personal opinion on that but of course, this is also a matter of time. India has moved to the eighth position, just behind Italy. It is only a matter of time before India will overtake Italy.

Quotas are partly determined on GDP, which account for about 50 per cent, and partly on a measurement of openness. Of course, Italy is a very open

economy. It is a large trading nation. They are just a little ahead of India but all these things will move over time. As I earlier mentioned, China will overtake Japan. Time is on the side of Asia. This is the Asian century and all these countries will take a larger seat. Could we not move this a little bit quicker? Emerging countries are pushing for GDP based on PPP – purchasing power – and that would bring the Netherlands down to below 1 per cent and would push up China a lot. But I think it is better for China to appreciate its exchange rate, then its GDP will increase a lot. So, if we only take purchasing power for measuring GDP we put an obstacle there for China to show good exchange rate behaviour.

Mr. Van Baar asked a question on the Washington consensus. Maybe I should not have mentioned this; it always triggers new questions. I completely agree with him that it is a vague – not ‘fake’ but ‘vague’! – concept. I mentioned it because it has very different connotations, as Mr. Van Baar implied with his question. The Washington consensus has been very much resented by emerging economies. At the same time, I feel that many emerging economies have applied the Washington consensus. But the sheer fact that this came out of the Anglo-Saxon world has made this word no longer fashionable. It is not completely gone, because it was largely common-sense policies which at times are not applied by the large countries. You mentioned the example of the US but one could also mention the example of France and Germany when the Stability Pact applied to them. They put these rules aside. This is typically large-country behaviour: yes, there is consensus and yes, it is for the rest of the world. Professor Kupchan mentioned this morning the agenda of India, China, and other emerging economies taking a larger seat in the IMF. I think there are two elements in the Washington consensus where they have an influence and where the consensus maybe be shifting somewhat.

The first is on deregulation. Part of the Washington consensus was that it would be best to deregulate markets as much as possible. The lacking element there was supervision, even implementation of supervision. That is a lesson we all learned.

The second element is capital flows. The Washington consensus is more or less that you are well served by opening up your capital market. We have learned that in Europe we are very well served by this. Without an open capital market there would not have been a monetary union. We should not forget that in the sixties and even in the seventies we still had exchange controls. In the sixties the French had a cap on what they could spend in other countries. So, it is not such a long time we had this ourselves. In the global market, with the tremendous increase of capital flows, there might be something to be said for an oversight of capital flows at a global level. You

see in my institution, the IMF, a bit of a shift on the use of capital controls – that, too, is a vague concept – in the sense that you forbid your citizens to invest in another country. That is not what we are talking about; we are talking about the soft side of capital controls, which actually are now applied in countries like Brazil, with the approval of the IMF. Because of the very ample liquidity provision in the US and Europe we see all these speculative capital flows coming in, putting upward pressure on exchange rate, and destabilising the economies. Emerging economies have responded to this by establishing higher reserve requirements. So, many countries have now a policy where capital can come in – there is no control – you can invest in for instance Brazilian reals, but the bank will be asked to put 20 per cent, 40 per cent – in some countries even 80 per cent – at zero interest at the central bank. That makes it a lot less attractive. We are struggling with this. Even before the crisis I have been a large advocate that the IMF takes a stronger oversight on international capital flows. That may be a little bit of an amendment of that Washington consensus.

SECOND ROUND OF QUESTIONS

Mr. **Chairman**: We take all the questions and then conclude with the answers.

Mrs. **Okano-Heijmans** (Clingendael Institute): I have two questions. Yes, I will keep it brief! My first question is about the ‘one euro area seat’ in the IMF or a European set, whichever you want to term it. What exactly do you see as the benefits of this? Both speakers indicated that it would be desirable even though especially in the short term highly unlikely but what exactly do they see as the benefits?

Perhaps also to convince certain parties that are not yet convinced of those benefits would it not also be very important to speak of what we are getting back if the eurozone countries are to give up their several seats for one seat? Certain voices are saying that bargaining power now is stronger than it may be in the future, when we may be forced to change this to one seat. From those two perspectives, how would you look at this?

My second question is about what Professor Kupchan was referring to this morning as the regional and functional institutions versus the global institutions. Indeed, the IMF is reforming but at the same time we see a parallel development of other institutions in other regions for certain functions. If we go back to the theme of today’s discussion – the power shifts in the world order – also here we see a big change ongoing. The role of the IMF, at least in the eyes of certain countries, is declining and other regional organisations are being established. Most importantly perhaps we could think of the multilateralisation of Chiang Mai initiative. That comes close to what

has been termed earlier as an Asian monetary fund. What does that mean for the role of the IMF?

Mr. **Van Staden** (AIV): I have one question for Age Bakker and one for Carlo Trojan. Age, you have presented a very vivid account of the resurrection of the IMF, making all sorts of obituaries rather ridiculous. However, there was one important element I missed: what is the IMF doing right now to make sure that there is some degree of stability on the global currency market? After all, it was the original mission of the IMF to provide for monetary stability in the global context. I am aware that a return to the system of fixed exchange rates is not quite realistic, to put it mildly, but nevertheless, what we have seen are the enormously harmful effects of the wide gyrations in the currency market. So, given your analysis of IMF now being one of the pivots in the system of global governance, how do you see the role of the IMF on this important matter?

Carlo, it cannot take you by surprise that I fully concur with your analysis of the current state of affairs with regard to the economic and monetary union. I also agree with what you have said about ideas currently floating on how to make the economic union-part of the construction stronger. You are quite right that all sorts of proposals and suggestions are boiling down to strengthening intergovernmental arrangements. It is my sense that as long as there is no independent decision-making authority in any system of economic union – of course, we have the ECB but this cannot do the whole job – the system is doomed. Of course, I recognise that the present state of political affairs is not very encouraging to make the case for a stronger position of the European institutions but in the longer term we have to plead indeed for strengthening the role of the European Commission in the of economic union.



Joris Voorhoeve

Mr. **Van der Hoeven** (ISS, AIV): Before I ask my question I have one remark on the discussion just held on the Washington consensus. I was in the room when John Williamson framed the Washington consensus in the early nineties. Despite what was said earlier The Washington consensus is very clear; there are ten requirements to governments. Of what to do and not to. The problem with the Washington consensus was and is, that it is not apt for a number of developing countries because of its wrong one size fits all description and is absolutely not apt anymore for the current situation of the crisis. So I beg to differ that the Washington consensus is not clear: it is clear! But it was and is especially now not relevant anymore. That is a better interpretation of the Washington Consensus, according to me.

My question is the following. This morning we already talked about the development at the national level and the observed growing inequality. This afternoon Mr. Bakker indicated the changes in the IMF and the global governance very well. I have two observations on that. First I want to stress that the origin of the crisis is not only financial but also social; American poor and middle income households used their houses as automatic teller machines to get additional mortgages because they were so poor that they could otherwise not make up a decent living. So, there was also a very social element in the crisis. This brings me to my second observation.

The construct of improved global governance Mr. Bakker described is that of a G20 with the support of the IMF as the secretariat. I want to raise the question whether we are really served by a global governance system, dominated by a secretariat which leans heavily on a financial institution such as the IMF? I Don't we need a global governance system, which includes also social and political elements rather than having a global governance system with relies so much on the support of the IMF? Despite some changes by the current managing Director Strauss Kahn it remains a financial institution and everybody knows how difficult it is to change the mind-set of an institution, especially a financial institution.

Ms. **Van Dalm** (Roosevelt Academy): I have a question related to the presentation of Mr. Bakker of the IMF. He rightfully mentioned that the poor were the victims of the financial crisis and that by having a pro-poor policy they try to decrease the inequality. But at the same time you see the rich, the higher incomes, are recovering way faster from the financial crisis. So, in that sense poverty is targeted but not necessarily inequality. This growing inequality establishes a lead with access to more things, to more capital, also in the sense of knowledge. I would say that global governance also requires global understanding, global support. For the largest majority of the people to again believe in the financial system you also need this global support. How would eliminate not only poverty but also inequality?



Mr. **Wouters** (Flemish Foreign Affairs Council): I have a question regarding the point made on putting Europe's house in order. In fact, we are now after the Lisbon Treaty in rather a paradox; we have a whole new architecture with new institutions, new players, and new bodies for making the EU a more effective global actor. We could have many reflections about the flaws in the architecture – I personally think that there are some improvements compared to the past provided you have the right people in the right positions – but much depends on a good and proper system of deputisation. This triple or quadruple function of the High Representative/Vice President is indeed a challenge. But it all depends on the system, the deputisation, and so on. I see other flaw that have not yet been mentioned but that is not my point. My point is the paradox that although the Lisbon Treaty is in place Member States now seem more concerned in minimising the implications of the Lisbon Treaty and are fighting some sort of rearguard battle with regard to a number of points. I will give three examples and I would like you to comment on them.

First of all, the role of the rotating presidency. We thought it would be gone, especially for external affairs. It is not mentioned anymore with regard to external matters in the Lisbon Treaty but we now see that the Hungarians and possibly also the Polish are trying to regain a position on the world stage, in the rotating presidency. There are all kinds of battles going on. Last week there was a UN-forum on forests in New York and you cannot imagine the battle within Europe about whether the EU should be represented by a Commission-delegate, by the Hungarian presidency, or by a so-called EU-team, and so on. So, it is a bit embarrassing but we are again exporting our

differences. The worst example until now was the Mercury-case in Stockholm in June, last year.

The other point is – talking about rearguard battles – is the EEAS-budgeting. You rightly talked about the organization chart but let's look at the budget. The budget that is being provided for the EEAS should be so-called budget-neutral. What does this mean? We have 475 million euro for 2011 and 3,700 staff members, which is in a way as much as the Netherlands has in its foreign service staff. The EU has 136 missions abroad and the Netherlands 137. These are quite interesting analogies. But the point is that the Member States do not yet seem keen to make this kind of economy of scale, in which you could restructure the current number of staff – 93,000 in total for all EU Member States combined – and do some interesting economies of scale in order to have the EU diplomacy working much better.

What is the current attitude of the Dutch government? It is not yet clear to me how the Netherlands assumes its role in the post-Lisbon era, in Brussels and abroad. Are they faithful pro-European players? Are they doing that internally and externally? What about the other consequences of that? We heard about the IMF but what about the G20? Is the Netherlands still trying to become re-invited to G20 meetings, or are we in that sense also rather relying on a European representation?

Mr. **Chairman**: I may perhaps remind you that Carlo is not a representative of the Dutch government. But we are looking forward to his answers.

Mr. **Uilenreef** (AIV): I have a question to Mr. Age Bakker. This morning we discussed the different values that we have in this new world order. To what extent do you think that this new balance of power within the IMF will actually lead to new policies? I am particularly thinking of the condition-based approach and good governance, which is sometimes attached to Western democracies. Will this change in the new IMF?

Mrs. **Bos-Karczewska** (Journalist): First of all, I would like to make a teasing comment to Mr. Bakker. How do you feel representing the Netherlands in the IMF that Belgium has a higher position in the IMF-ranking in terms of constituency? Even in the new terms it is a higher. The distance between the Netherlands and Belgium has even increased.

Mr. **Chairman**: It is an alphabetic order!

Mrs. **Bos-Karczewska**: So, a new criterion! I have a more serious question. I am grateful Mr. Bakker talked about Europe speaking with one voice vis-à-vis the

outside world. He talked about designing or thinking about the common future of Eastern Europe. I would like to know what kind of thinking there is in Washington about the future of Eastern Europe. What is he thinking about Russia? I remember that one or two years ago there was a conference here about the relationship between the European Union and Russia. At that time, Russia was a big power, a resource of oil but now it seems that the position of Russia is less powerful though it is still a BRIC country.

Mr. Chairman: That higher position of Belgium is of course the revenge for what we did to them in Nice!

Mr. Trojan: There was the question what is the advantage of a single seat. The short answer is 'impact', impact in global affairs. In world trade matters we have one single negotiator and I happened to have been in Geneva for six years. In world trade matters we have impact. The European Union is considered as being at least on equal footing with the US. So, impact with a single seat should be the biggest advantage.

But what is more important is not that you speak with one single voice but that you send out one single message. In the present situation with the rather fragmented external representation Member States do not always say exactly the same thing. Quite often they even say conflicting things. As a consequence, we do not have the impact which is commensurate with our economic weight in financial and economic matters.

With regard to the external representation it is clearly stated in the Treaty of Lisbon where you have exclusive or shared competence the external representation is done by the Commission. That is quite an enlargement vis-à-vis the previous practice. There it is the same as with the rotating presidency: Member States are not yet ready to accept the formal consequences of what they have approved in the Lisbon Treaty. Obviously, it was not meant that the rotating presidency should play any role in foreign and security matters, except what in practice was agreed upon: if Lady Ashton – who cannot be present at every single bilateral meeting – is not there the minister of the rotating presidency will take over. But it could also have been one of her Director Generals. She has six Director Generals, three Secretary Generals, and one Chief Operating Officer. So, there are enough people from whom she can choose.

It is not a coincidence that Van Staden and I are on the same line. He is my chairman in the AIV and we have discussed this subject quite in length and in depth. We would need an independent institutional authority with regard to decision making. There are eurozone members and there are EU members.

If we look at the eurozone for the fiscal surveillance – the budget deficit – clearly the legal context is there, on the basis of Commission proposals and the decision by the Council. That will be revamped in the actual discussion. So, that is done in an institutional framework.

As far as the rescue fund is concerned it is outside any institutional framework; it is intergovernmental. The Member States want to keep it intergovernmental because it is their cash, their guarantees and they do not trust the Commission with it. That is the actual state of affairs. You could also deal with that in a more institutional way because you could do it in the context of enhanced cooperation. This entails the formal procedures of the Council, even the European Parliament, et cetera. You could settle these things in the form of enhanced cooperation but we are not yet there.

It is far more complicated when you are in the grey zone of coordinating economic policies. What we have been doing in the context of the Lisbon Treaty is peer pressure and benchmarking. Is that enough? No, that is not enough. I doubt if we could go much further than that within the actual institutional framework. So, there is a real problem. If you look at the different proposals to try and harmonise structural reforms you see we also tried this in the context of the Lisbon agenda. But without very legal commitments in practice not very much is coming out of it. So, you are completely right that we have a big problem there.

I also hope that in practise the external representation will go better than I am anticipating. If you look at the number of staff it is nothing exceptional. The European Commission had about 140 delegations, more or less the same amount as the Dutch government. But in these external delegations we have decentralised much of the development assistance. So, most of the staff in external delegation is dealing with development assistance and financial control related to development assistance, while in Member States many of these tasks are done centrally at the ministry. So, the number of staff is not exceptional; it could even be more than that. What I think is exceptional is the 'heaviness' of the Mexican army in the organigram.

Mr. Bakker: These are very interesting questions. I am told that we do not have a lot of time but we will be around during tea as well. Let me very briefly get into this.

First, one euro area seat. Carlo already mentioned that. Do we now have more bargaining power? Of course, I am satisfied if I book a little success but on the whole I would say that Europe could present itself more effectively. That is what I see from experience. Europe was very late in reacting to the financial



*Age Bakker
Jan Rood
Carlo Trojan*

crisis. It had the idea it was a US problem and only later it daunted it was a European problem. We have seen how long it took to react to problems in Greece and Ireland. It all takes very long. We can be much more effective. Second, should we work more together with regional institutions? Yes, that is the model we have. The IMF works together with the European Union, not only in Greece and Ireland – we already did that before in Romania, where the programme is partly financed by the EU and by the IMF. This is the way forward.

Is it competition for the IMF? I do not think so. Asia has considered going its own way, especially after the Asia-crisis, in which it felt quite badly – rightly or wrongly – about the way it was handled but it is very difficult for them to come up with anything close to the European Union, partly because of the sheer size of the large countries and because they are not on the same pace. So, the model most of my Asian colleagues are looking for is becoming a more pro-active member of the IMF. Interestingly, countries like China and India now also finance the IMF programmes, including those in Greece and in Ireland. China is more and more behaving as a creditor country. At the same time, it is working together through the Chiang Mai. I do not think one excludes the other.

Mr. Van Staden asked a question about the gyrations on the exchange markets. I have been in the US for four years. The US dollar – euro exchange rate has been in a corridor of 1.25 to 1.65, which I think is fine. Actually, the system has worked quite well. The corporate sector knows how to deal with exchange rate fluctuations. They hedge and they make their own decisions there. The exchange system has been resilient and it has coped remarkably well with the financial crisis. The big fear everybody had was that the financial crisis might trigger for instance an unloading of US dollars, but this has not happened, which by the way points to the big vulnerability in the system. Maybe Mr. Van Staden was alluding to that. That is the stranglehold the US and China have together; basically, China is financing US deficits and building up larger and larger reserves. This is not sustainable and that is what the IMF and the G20 focus on. So, that is foremost on our minds. But the system has coped better than many might have expected.

I will take the questions on social crisis and inequality together. I take the point that inequality is putting strains on globalisation. You also see this in the opinion polls. In the US, where I now live, in an opinion poll globalisation was called a good thing by more than two thirds of the American population ten years ago. In the last opinion poll – from last week – this was less than one third. So, this is not just a European thing. It is partly a phenomenon of people not seeing what is in it for them. My answer would be to do two things.

First, to reform the UN-system, which is long overdue. The UN-system has a much broader agenda than the IMF and the World Bank. I am chairman of the liaison committee between the IMF and the UN. I have talked to the UN a number of times because they have a lot of interest in our constituency system. It might make the UN much more effective. I am not an expert on this but I think that is what we should look for. The UN should resume its more global role.

Second, I would venture we should focus more on jobs than on inequality. The big danger is unemployment. Many countries have very high youth unemployment, for instance Egypt and 40% in Spain. I think it is bigger problem at this moment than inequality. There must be job creation and for that we need structural reforms. That is by far the most important thing countries need to do.

Has conditionality changed the value system in the IMF? It is a learning institution and owned by the member states and the member states evolve as well. We have drawn quite a number of lessons from the Asia crisis, when international institutions had a tendency of trying to repair everything what is

wrong in an economy. That has not been helpful. We now focus only on the most important things. I witness this very close by; as I said, I represent seven countries that now have a programme, including countries like Ukraine and Romania. I could easily think up a much longer agenda for the IMF to focus on in Ukraine. We all can, but the IMF focuses there on only a few issues and tries to keep the country together. In that sense, there is a new IMF.

The IMF also takes the policies in countries with a good track record at face-value. We have provided credit lines to Mexico, Colombia, Poland, and Macedonia without conditionality. This is a completely new phenomenon; this has not happened in the history of the IMF.

In reply to the question from Mrs. Bos I must say that I do not at all resent that the Belgian Constituency is larger than the Netherlands. It has a very complicated constituency. The second country is Turkey, and then Austria. They have gained in votes because Turkey, being an important economy has been gaining votes.

Some remarks were made about Eastern Europe. I represent part of Eastern Europe. By many countries the IMF is seen as the 'bad cop' and is not liked that much. However, the standing of the IMF in Eastern Europe is much better, because it has been seen as the institution helping the transition to a market economy. The IMF is also seen as a promoter for an accountable government because it will not provide credit to countries where the government accounts are not in order. It is not without reason that Eastern European countries have not hesitated to come to the IMF. One day after the fall of Lehman Brothers Ukraine – the country I represent – asked for an IMF programme. They did not hesitate to come there.

Do we have a vision for Eastern Europe? Yes, that is to align Eastern Europe in the European Union. The IMF is a big defender of all those countries that try to put their house in order so that they are accepted in the euro area. That is why I made the argument earlier in my speech that Europe would be well advised to redefine its agenda for Eastern Europe; because Eastern Europe has the feeling Europe is becoming a closed shop.

Mr. Chairman: Well, we have come to the end of this session. I have just been told that the minister is waiting in the corridor and that is something that should not happen, of course!

Let me make one observation. This was not a fake session and this was not a vague session; it was a most interesting session! The credits go to our two speakers. They deserve applause! The credits also go to you as participants, coming up with all these interesting questions. Now, it is time for tea. Thank you so much!



Session B: Security and scarcity of resources

Chair: Prof. Dr. André Knottnerus,
Chairman of the Scientific Council for Government Policy

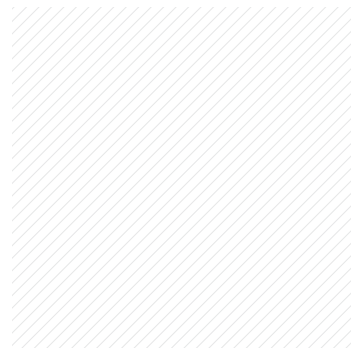
Speaker: Bernice Lee MSc
Research Director Energy, Environment and Resource
Governance at Chatham House

Discussant: Mr. Fred de Graaf,
Chairman of the Foreign Affairs Committee of the Dutch
Senate

Mr. **Chairman:** Dear and distinguished guests. We are happy that you are with us again. Let's get back to work, because we have a very interesting issue this afternoon to cover in this thematic session on security and scarcity of resources, which is obviously an enormously important issue.

Resources are to be seen as really critical for the economic development and the general wellbeing of states and nations and the world population and of course sufficient acquisition of these resources is therefore essential. And as natural resources are not sufficiently and equally spread over the world it is a constant challenge for trade, but also a source for international tensions. In addition this situation is also an extra motivation for innovation and for changing resource consuming behaviours throughout. So, this is very important in the context of today, already briefly mentioned this morning.

We are very happy that for introducing us in this theme and also for further elaborating on the problem and possible strategies for solutions we have an excellent speaker and a great expert in the field and we have also a great commentator and discussant who will speak later.



I would first like to introduce our key note speaker for this afternoon. Ms. Bernice Lee from the UK. She is Research Director Energy, Environment and Resource Governance at Chatham House, Royal Institute of International Affairs and she has also a very broad experience in many other key roles in this area, in for example – not to mention everything – as Head of the Energy Environment and Development Programme and also as Team Leader of the EU–China Interdependencies and Energy Environment Security Programme.

Bernice, we are very happy that you are here and I would like to give you the floor.

Scarcity and international cooperation.

Managing the Interlocking Resources Challenges: risks and opportunities¹

Address by Bernice Lee MSc, Research Director Energy, Environment and Resource Governance at Chatham House



Bernice Lee

Ms. Lee: Thank you very much. I am sorry that I am going to sit down today because I am too short for the podium, so you will not be able to see me. Next time when I am invited to speak in the Netherlands I am going to add in my biography: I am shorter than a Dutch person so please adjust the speaking podium.

Let me just start by thanking the organising organisations and the Senate for posting this very important meeting. For one, I myself found this morning incredibly stimulating and I sincerely hope that this type of discussions will be

replicated throughout Europe to make sure that we are getting the best of what Europe can offer in these key areas that we have discussed today. It is difficult today to open the newspaper without reading another article about resources. I counted twenty of them in *The Financial Times* yesterday, just in the front part of the paper and covering a range of issues from food, energy, minerals, water, and land investments. It covered issues around whether or not President Sarkozy would manage to push through a mechanism to separate the speculative from the investing decisions in the food markets, to whether or not it is possible for Europe to decrease its energy dependence from Russia. We also have the current crisis in the Middle East to remind us that sheer politics often lies at the heart of our access to key resources at affordable prices.

This should not come as a surprise, given how much of modern life is dependent on our access to these resources, including our improved life style, for much of this century. For we have indeed taken for granted that we will always have access to cheap accessible energy, food, materials and other key resources.

As the speakers this morning very clearly elucidated: in a world where we are having a much flatter power structure, in a world where we are having increasing demand that we probably cannot possibly meet in the immediate and mid-term governance will only get harder. We are, on the good side, beginning to realise what environmental change and resource constraints will do to the complexity of international relations.

We are going to see more bottlenecks in food production, in energy production and the production of other key national resources and infrastructure. These bottlenecks and price spikes will not just affect businesses, because it is not just a question of economics; it is rejoining the boundary of international cooperation and competition.²

I will start by giving you my conclusion today: that decisions that we make today will decide whether or not we will face a competitive world where we will have zero-sum competition with the emerging powers on resources, or, whether or not we can create the rules of the games to ensure a more collaborative future. I will talk a little bit about the diffusion of the production and demand centres, to the emerging economies and to more and larger original production centres, and how that may or may not impact on the power of the consumers in the OECD countries to continue setting the rules of the world.

There is, I would conclude, a great window of opportunity for the European Union to play a proactive role in constructing or amending our international regimes to lock-in collaborative rather than zero-sum competition, if we act today. We will have problems around distribution of resources in an equitable fashion, both within national boundaries and between national boundaries. We also know that history is not on our side. As discussed this morning, all major powers always talk about how they like rule-based systems, but the reality is that all of these rules that were set up were based on power-based hedging strategies: where there are key resources you see an aircraft carrier nearby. What we do know today is that we all do the same: trying to pretend that we care about rules while we actually invest in hard power. We will see a much more convoluted and difficult world in the years to come.

First I would talk about what I think we know about resources and what I think we still do not quite know about resources. So that was my conclusion.

We know that we face many resource challenges and I am not going to go through them with you. I can if you want to ask me later on, but you must have seen so many slides, giving you pictures around demographic change, energy demand, water demand, water resource depletion, food depletion. I am telling you as I will do now, that total consumption on the scale, given the increase in population will actually exceed the tolerance thresholds of our ecosystems and resources, whether cropland, farmland, fisheries, or usable water.³ We know that individuals in the middle and upper classes increased resource consumption by something like 200 per cent in the last 40 years.⁴ By 2050 these statistics will tell you that 75 per cent of global population could be facing fresh water shortages.⁵

We also have the potential impacts of climate change. I use the word 'potential' because we do not know the scale. We know it is going to come but nonetheless we do not know the extent. The extent to which climate change will impact on our future will depend on policy choices that we make today and very soon.

Another thing we do know about this is that most of it is driven by growth in the emerging economies - that is, by the way, what poverty reduction looks like when it works. When poverty reduction works it means more consumers, more consumption and to that we will indeed have to drive unanticipated changes in our production and production system.

This is also accompanied by a major shift in both processing power and consumption in the developing countries. Deloitte and the US Council on Competitiveness recently talked about what they called a 'new world order for

manufacturing competitiveness' where the competitiveness of the usual suspects, China, India and Korea, but also Brazil, Russia and others will consolidate and lead to the expansion of further diversification of regional production networks.⁶ We know that this growth from the emerging economies has rejoined the landscape on water, resources, energy and food, but what we do not know yet is the combined effect of this growth and the global power shift. By 2030 non-OECD countries could account for as much as 57 per cent of the global GDP on a purchasing power parity basis.⁷

If traditional OECD importing countries are going to decline in their power as a consumer, what will happen to their power to set the rules in international markets?⁸ Will the dominance of these new players change the rules of the game and the business models and all of our operational assumptions, whether in terms of foreign investment or in terms of basic production and trade?

If we look at the recent history from the oil and gas market, the developments are not necessarily encouraging. State-backed Asian resource investment strategies are already changing the business environment and the extractive sectors and infrastructures in the developing countries. In oil for example, it is clear that the traditional consumer and producer blocs will be less able to influence the control of the oil prices over the middle and long-term and that will only increase volatility.⁹

Before new models of governance can be crafted, or developed, or adapted, and remembering each of which will have their own assumptions based on the kind of commodity that they are and different market structures, perception of insecurity is as likely to cause conflicts as the reality of insecurity. We often do very stupid things, because we think bad things will happen, not necessarily because bad things have happened. This means that we must monitor and be careful in understanding how governments, companies and other actors are responding to resource threats at local level, at national level and international level, because we are looking at new patterns of relations between consumers and producers of the world.

One of the examples that we often use is the one that Amartya Sen wrote about: the Bengali famines in 1947. The famine was not caused by lack of food; it was, however, caused by the lack of understanding around the distribution of food and the holding behaviour, that people start stockpiling the food so that even though there was food around it became too expensive. What I am suggesting here is that the world we are about to face, or that we are probably facing already, in some of these key resources could be like that world. A world where we have enough, but our own hedging strategies, our

fear of insecurity may lead to all sorts of scaremongering that could be more destabilising in the short-term than is necessary.

We know that the search for water, for example, is already one of the driving forces of state backed investments from the Arab Gulf states to secure land production for agriculture. So the rules of the games are already changing. Asian countries, as I mentioned, are already looking at the use, in the long-term, of bilateral research in contracts for oil, gas, and coal sealed with political and economic support. At this critical juncture, do we think that policy makers, companies and stake holders in the West have a firm grasp of the realities of a resource-constrained world accompanied by a power shift?

Can we in fact craft in the West a change of paradigm vis-à-vis resources access and use that will enable long-term competitiveness and growth, not just for Europe, but also for the rest of the world. Companies today are already competing at a local level with other competing needs for resources; a mining company in Chile will be competing with the agricultural sector and with other industries for energy use.

These problems do not only manifest themselves in interstate relations but also in local relations where we see a resurgence of company-government conflicts when it comes to overseas investment.

With all these problems in mind I would like to offer three dimensions that I think we can jointly work together and think through the implications.

The first is how we can better understand the security impact of this resource constrained world. We understand now that the interlocking climate change resource scarcity and development issues are increasingly understood as a key accelerator to new risks and vulnerabilities in the international system. Especially in the developing world, water availability, energy security and the upward trend in costs for many resources are really big risks in their development projects.

Even though we do understand the need to address these problems we rarely see the capacity or the intention of governments or companies to look at these in a systematic manner. Following the financial crisis of 2008 one would have thought that the consequences of bad policy choices would be better understood and should have deserved more attention, but in the political system that we live in, where, at least in a democratic world, the time horizon is often short as it is based on the electoral cycle, are there real capacities for governments to think through the long term? Do we have the capacity in the policy planning units of our foreign ministries for example to plan until 2050?

I was amazed when Professor Zhang talked about China's shopping this morning, planning for 50 to a 100 year change. That is a luxury that most democratic systems simply do not have. And even if you have it, the urgent will always crowd out the important as we find out time after time. With this shorter timeframe, policy planning will always run the risk of preserving our prevailing assumptions and our own mindsets in terms of risk management and will not have the capacity to plan for complex issues with long time horizons, and potentially high scientific uncertainty, like climate change. We always have a tendency to run away from complexities and return to our basic assumptions. One of the things for example that have amazed me, was how the resource scarcity question is empowering the realist school of thinkers again, because competition for power is in fact the comfort zone for many thinkers in international relations. Perhaps it is a bit difficult sometimes to look at the complexities and see through how we can use the systems, institutions and tools that, for example, Hedley Bull used to talk about in the *Anarchical Society* to create opportunities for collaboration and at least for hedging the risks in a more systematic fashion.

At the policy level we now have a pretty good machinery that has accepted climate as a serious and dirty threat in the immediate to long-term if we do not do enough about it. The National Intelligence Council of the US for example have a classified assessment exploring how climate change could threaten US security in the next 20 years by causing political instability, movements of refugees, terrorism or conflicts over water and other resources.¹⁰ The Australian Defence Force also concluded that climate change and rising sea levels posed one of the biggest threats to security in the Pacific. These impacts according to their analyses might also spark a global conflict over energy reserves under the melting Arctic ice.¹¹

Even though we are seeing the beginning of the process of understanding the security implications we also have not build up our capacity to respond to what would be called the *Black Swan* events. Chatham House has recently been conducting an analysis on the impact of the ash clouds in April last year, because we thought it would be good to study a benign *Black Swan* event to look at whether or not our governance systems, our response mechanisms, are in place to respond to these sort of threats. I will send you the results when we complete the study in a month or two, but as far as we could figure out, even though we had a major crisis in Europe, we are not entirely sure, based on all the interviews with businesses and stake holders and analyses that we did, that we are actually any better prepared if the Iceland volcano decided to erupt again.

Hurricane Katrina costs 19 per cent of US refinery capacity, pipeline damage, etc. Shortly after that we saw, as we all know, the oil price rise, which was followed by a financial crisis. The hot summer in France in 2003 shut down 17 – I think – nuclear power stations because they had problems cooling the power stations and EDF lost something like 300 million: one hot summer! We look at all these facts and yet we do not seem to have a way of conceptualising and managing these in a way that translates into practical policy advice.

So my first recommendation today, if I may, is to suggest that the EU in the run up to the Rio Plus 20 process have an opportunity to lead the international community in understanding the risk of business-as-usual planning and practices around resource use, access and management.

I think that the security community has already shown us that using worst-case scenarios not necessary to scare people off, but as a planning tool, could potentially help us understand the kind of geopolitical and economic impacts on policy failures and our failure of action.

There also need to be practical mediation mechanisms. This could be by expanding the use of current mechanisms, whether through the international chamber of commerce for commercial disputes or through international court settlements, etc. We probably need to look at these old institutions again to decide whether or not they are up to the task of managing the crises of the types that we are likely to see tomorrow.

The second dimension I want to look at other than the security impact of a resource constrained world is the question around whether or not we will be entering a world where we scramble for technologies rather than resources. It is easy to think of energy access as one of supply of liquid fuels, when in fact a lot of the problems and issues could be dealt with by end-use solutions as well as innovation and development of new technologies. In order to have the bridge to our sustainable future it seems to me that it is as important to ensure access to future technologies as it is about access to resources, but these two are intractably linked. We understand the need for clean energy systems and yet we forget that even with new energy options we are looking at the demand for materials of the sort that we are also facing serious competition in.¹²

It is not so long ago when just one summer of demand from Germany for solar PVs lead to two years of Polysilicon shortages in the world and which was followed by an oversupply response, which was followed by the financial crisis, which actually created the solar market in China, but that is for another time if you like.

But the point is that even green technologies require new materials and we are now seeing that played out in the discussion on rare earth metals. We also know that most of the environmental technologies will need very specific raw materials. Fuel cells will need platinum, palladium and rare earth metals. Hybrid cars are dependent on new types of batteries, which at the moment are based on another rare earth metal, called neodymium, which is a high performance magnet.

Other alternative energies require all the other sorts that we know about. In one of the new model wind turbines, each of the turbines will require about 2 tons of rare earth minerals. These materials as you know, also have military applications in guiding missiles and our long term access to these new materials will bring new risks.

Bearing this in mind – and in fact I wonder whether you want me to talk a little bit about the rare earth metal situation, because I was here not so long ago – and we discussed it quite a bit, not in the Senate but at Clingendael where I think, quite a lot of you were present.

At the moment China for example produces 97 per cent of the world's rare earth supply, about 100 per cent of the associated metal production and 80 per cent of the rare earth magnets. China imposed, as you know, export restrictions on a range of REMs as we call them, citing domestic use for economic development as a reason, which is creating tension with the US and the EU.¹³ The increasing awareness over these rare earth minerals is triggering supply responses. So we now see the rebirth of the recycling of metals in Japan. There are also plans to open new rare earth mines in South Africa, Australia, Canada, the United States, Vietnam, etc.¹⁴ I think the type of trade tensions we see over REMs illustrate the type of conflict that may proliferate in a resource constrained world. The increasing national control of resource governance, as in the oil sector, is placing restrictions on the global trade of these materials. Even though they may seem like they are only affecting the individual manufacturer at a time, they are important considerations for policymakers.

What can the EU do? At this critical juncture, policy makers must come to grips with the strategic implications of the resources and materials dimensions of new technologies and I would propose that the EU is in a unique position to put together a public-private mechanism that can help manage resource security. These could involve, for example, voluntary agreements between companies in bilateral or in multilateral setting, to share critical resources, potentially in exchange for some form of knowledge transfer. And I can see that being potentially a game to play in some markets. Because one thing we know Europe is still very good at indeed, is innovation.

The last thing I would mention, if I have a tiny bit of time left, is how we make markets more responsible in the context of resource constraints. As our awareness over resource and environmental stresses is growing, the other side of the coin is that it is a great opportunity for innovation and investments, for new markets and new products. Companies and governments that are moving fastest will definitely be the companies and governments of the future. Water constraints for example are energising the water companies through innovation and more water efficient technologies and practices.

In the race for green solutions this is already evident in the low carbon sectors. Markets for low carbon energy products are assessed to be at least US\$ 500 billion per year by 2050 according to the Stern Review. The HSBC, the bank, recently suggested that the low carbon energy market will triple to US\$ 2.2 trillion by 2020.¹⁵ The question is with, as I said earlier, the shifting economic power eroding the power of OECD consumers in greening the supply chain. Can OECD consumers still play a role in greening the supply chains in creating these markets? And I hope that my answer to this question is a positive and optimistic 'yes'.

The EU has led the way. Whatever happened in Copenhagen was a complete PR disaster, by the way for both the EU and China, but Europe has been critical in creating the green markets for the world and it can continue to do so, because of its economic powers. It is the largest economy in the world and continued access into the European markets is one of the largest carrots for any producer in the world. In a world where instability characterises the politics in much of the world's regions and in a world where there are no obvious store of values left. You do not want to just put money in US treasury bonds. That gives Europe a unique opportunity and perhaps a relatively narrow window to use the remaining consumer power that it still has in greening the supply chain. This could take the form of piloting and, I think as was discussed this morning briefly, standards that will help us lock-in the development of the more sustainable options for the world.

In conclusion, if we are to address the resource security question we will need to generate multiple public goods from the same production systems and sectors. We have shown to be very bad at doing that. Unless incentives in international markets are aligned toward both environmental and resource goals, even well-meaning initiatives and efforts will not deliver the public policy outcomes that we know we need.

I would conclude by repeating one point that I made earlier: perception of insecurity is as likely to encourage strategic defensive and potentially detrimental investments as the reality of insecurity. We must make sure that

we have the right information, the right knowledge base, and transparency to avoid misunderstandings of that sort.

The EU can also use its market power to strengthen bilateral relations in key markets, whether transatlantic or even with China, to create the green markets for the future. We often talk as if environment is separate from the social economics of the world, but in a resource constrained world there is no question that sustainability is the only future. This, if nothing else, is going to give Europe a huge competitive advantage for the world in which we are going to live. For if we need more innovation, we need an open society, which after all is the only sure fired ingredient for innovation, and Europe still has a lot to give. And we are counting on Europe, not only to help lead creating these markets, but also to use its market power to instil those collaborative rules of the game that will hopefully safeguard the sustainability but also the longevity of our globalised international markets. Thank you.

Mr. Chairman: Thank you very much Bernice Lee for your very comprehensive and informative overview and also for your general recommendations to think about strategies for the future.

Thank you very much, we will come back to that in the discussion, because we have ample time of discussion in this session, but first we will have the comments by our discussant, Mr. Fred de Graaf from The Netherlands. He is Chairman of the Foreign Affairs Committee of the Dutch Senate of which we have also the President, Mr. René van der Linden here. Thank you very much for participating in this discussion. So Fred, this is in fact your home house and we are also happy that you have the role of mayor of Apeldoorn, because I think this combination between being involved in local community developments and being very active in international policies is a very unique binding quality we really need in thinking about the connections between day-to-day life and international policies, so it is fascinating to have you here as a commentator, also in that role.

Address by Fred de Graaf, Chairman of the Foreign Affairs Committee of the Dutch Senate

Mr. De Graaf: Ladies and gentlemen! Let me start by thanking Ms. Lee, for her excellent speech. In my capacity as Chairman of the Foreign Affairs Committee of the Senate, let me say that the issue of security and scarcity of resources is one of the most important geopolitical issues of modern times. Moreover, the issue supersedes party-politics in our House of Parliament. In essence, scarcity of resources is the basis of virtually all major demographic, economic, and political changes. It is a complex issue, with the complex causality between energy, food, and water supply on the one hand, and geopolitical balances on the other hand. On a state level the increasing demand for natural resources and increasing prices, strengthens the influence of resource-rich countries where the distinction between state owned enterprise and private enterprise is not always clear. We heard that this morning I think. Let me put it this way: Will resource-poor EU be the victim of a global struggle for resources in a time of 'resource nationalism' and protectionism? Or will it lead the way in a transition to a more sustainable world? And what might be the role of The Netherlands in all of this, talking about managing scarcity and the role of the EU first.

Ms. Lee has made clear what the problem is what solutions there might be and that effective international cooperation is necessary. We are confronted with great concerns about the future availability, accessibility, utility value, and distribution of resources. Not a single country in the world is without scarcity issues, be it water, energy, metals, minerals or food, in lesser or greater magnitude. It has been calculated that over the 20th century the world's population has multiplied with factor 4, yet global output has multiplied by 40, fish catches by 25, water consumption has increased with factor 9 and carbon dioxide production by 17. So, the question is how are we going to manage scarcity and security of resources? That, I think, is the main question.

According to Ms. Lee, 'the EU must propose a transformative vision that takes into account environmental as well as equity concerns'. And indeed, last week, the European Commission communicated the new 'flagship initiative' for the EU 2020 agenda: 'resource efficiency as a guiding principle of energy, transport, fisheries, biodiversity, climate, and regional development policies'. The member states are discussing energy supply security as we speak today in Brussels at the European Council, in addition to a discussion on solutions for financial-economic problems within the euro area. Will the EU be able to take a leading role in the global management of resource scarcity? We all know it is easier to propose flagship initiatives than to have 27 member states

agree on the concrete steps to be taken in all policy areas. Perhaps for this reason it is called a flagship initiative, a flagship sailing ahead of the other ships. Not without reason did President Herman van Rompuy recently underline the necessity to work together as Europeans, but only we Europeans and I quote: ‘it is not just the EU27 that has to act together – global cooperation is required too – in an effort to develop responses to the shortages’.

In essence, ladies and gentlemen, the solution seems clear: more resource efficiency and a transition towards a more sustainable economy and society, managed on a global level. Yet, we cannot ignore the tendency of states to first secure their own interests.

What can the role of The Netherlands in all of this be? I would like to mention three aspects in which The Netherlands can play an active and constructive role in the international arena regarding this issue at hand here and I would like to invite Ms. Lee and the audience to share your thoughts on this.

First, I would like to mention that the Netherlands plays an important part in the transport of energy and other supplies to the rest of Europe, through our transport hubs like Rotterdam.

Secondly and maybe more importantly, Ms. Lee acknowledges that ‘water scarcity is likely to grow significantly in the future’. That brings me to our water management expertise. Let me quote the 2009 report on ‘Scarcity and transition: research questions for future policy’, published by our ministries of Foreign Affairs and of Environment. It reads as follows: ‘As a consequence of the sharp increase in demand for water for the energy and industry sector, combined with changes in rainfall patterns as a result of climate change, the physical water scarcity is expected to rise further’. Indeed, without water there is no life, no food, no energy supply and as a consequence no long term economic growth. In water related issues, I see a part to play for my country. Dutch government agencies and Dutch private companies have a traditionally strong expertise on water issues – by the way: half of this country is below sea level as you know – and built on outstanding international expertise with regard to water governance, ranging from irrigation to canalisation and everything in between and beyond. Our water management expertise is visible, for example in the University of Delft Hydraulics, and a number of knowledge based water related international programs.

A third area where this small country operates successfully on a global scale is agritechnology, for which I may mention Wageningen University and of course our very successful agricultural private sector. We are the world’s second largest trader in agricultural products and this means we carry a great

responsibility over the global flow of resources. We try to address this responsibility by incorporating our agricultural and water management expertise into our Official Development Aid programs. Personally, I am a strong supporter of combining technological knowhow from the private sector with public policies aimed to counter scarcities. Water management and agritechnology could become the very focus on our national contribution to the management of global scarcity issues.

To conclude, good cooperation between non-governmental organisations, private companies and the government is – in my view – a precondition to contribute to food and energy security. As The Netherlands we must try to voice in all international fore, a clear, short, and constructive message. We must be careful not to present ourselves as a ‘guiding’ country. More effective will be to focus on our areas of expertise and be a constructive partner in international negotiations. As a small country we need to focus on our traditional expertise in water management and agricultural technology.

Secondly, it is in everyone’s best interest to ensure that conflicting interests do not escalate into open hostilities and that we continue our approach of cooperation and thirdly, we need to take into account the position of emerging economies and work towards an interdependent system. Of course we face the same dilemma as other countries: on the one hand The Netherlands must be safeguarded from too great a dependency on others for our supply of necessary resources. Yet, if we look carefully at our situation, we are already dependent on others to a large degree, being a small country. Perhaps for this reason we are less prone to nationalist protectionism and more focused on international cooperation. Adapting and strengthening multilateral institutions and the ground rules for action, are the most important conditions for sustainable development. The EU and The Netherlands should strive for multilateral solutions in which regions and countries are dependent upon each other as reliable partners.

So in conclusion: The Netherlands can and should play a leading role in water governance and continue its success in agribusiness and development aid; always in close cooperation with the EU and multilateral institutions. Thank you for your attention.

Mr. Knottnerus: Thank you Mr. De Graaf, for your excellent comment and your perspectives from the committee you are chairing and your political analyses. Thank you so much. I recognise also some of the recommendations of the Scientific Council for Government Policy.

Mr. De Graaf: We read them!

Mr. **Chairman**: That's great, but of course there is also a very good and important next step to make. We heard that a viewpoint of the Cabinet on our report is forthcoming, so we will see what they will say and the discussion may continue. It will continue also this afternoon, because as said, we have ample time for discussion. We know that there is quite some expertise in this room on the fields we are discussing, so we hope for your input and we expect it. The experts are here, so you may put anything forward to discuss with them.

If you get to the microphone, please try to speak very close to it, because it is not only important that we hear you, but that it can also be recorded for the report that is prepared of this meeting. I would like to invite you to more or less structure the discussion in two parts, first I think, it would be good to spend some time to the problem analysis, and later to the solutions.

Both speakers have discussed the problem. Is it well defined, do we really have a good picture of it, is there something to add to the perspective of the problem analysis? In the second part of the discussion we would like to concentrate on the solutions, the strategies, the suggestions already having been made by the speakers could then be further discussed and elaborated.

Discussion

Mr. Manders (NEAA): I co-authored the booklet Mr. De Graaf was citing from. We should be a bit more specific about the questions we want to answer, I mean scarcity is a very complex issue, resources is a vast collection of things of commodity, water, energy, land, so I think it is wise to make a couple of distinctions. First in all this collection of resources we have resources with a price, with a market, like energy, minerals, metals and we have resources without a price, like most water, most land.

I think at least for those resources with a price there are some automatic feedback mechanisms helping us somewhat in the right direction, so when there is a high price we might be more willing to look for substitutes, to adjust our behaviour, to go for more exploration. The problem is more specific for those resources that have no price, so is that the scarcity issue we are interested in?

Second, we should distinct a bit better about the impacts. In my opinion most impacts are not so much in the OECD countries, but much more in developing countries. I mean we can live with a high old price, because our sensitivity to commodities is declining all the time, we have a very high welfare level, so even a high old price is hurting us somewhat, but not frustrating our economic growth. Much different in developing countries, where high food prices create hunger and poverty and high energy prices are creating poverty and hunger. So the scarcity issue in my opinion is much more about developing countries and even much more about those resources without a price. So that is to add a bit to the debate.

Mr. Evens (Flemish Advisory Board on Foreign Policies): The Flemish Advisory Board on Foreign Policies, with the counter part of IEV here in The Netherlands. I have a question for Ms. Lee. You referred to dispute settlements and my question is in this whole issue of conflict resolution because of scarcity and dispute settlement, how do you tie this in into global governance, who should play a role in there, which are the powers who could deal with that, is this a WTO issue or are other instances more in place to handle this?

Mr. **Van der Linden** (President of the Dutch Senate): I fully agree with the first speaker that developing countries pay the bill if the price went up, but for that reason I have always promoted to use nuclear power in the Western world. Developing countries are not allowed to create nuclear power stations in their countries. This can bring prices to a more stable level. What is your opinion on that?

Secondly, after 1958 we created the Common Agricultural Policy. The main target was food secured in Europe. What is your opinion about Common Agricultural Policy in the future if you look at the food policy and the food supply worldwide?

Mr. **Grotenhuis** (Cordaid): Given this scarcity of resources, especially in this limitation that we are facing, at the same the perspective of increasing population, not only in terms of sheer numbers, but also in terms of their demands. The question is also, especially when it comes to how to divide the available amount of resources that is worldwide there. In the economics you see a discussion on growth, and whether the traditional growth model is sustainable for the future, whether we in economics should think of other models than the traditional growth model, whether growth is sort of a basic assumption that should be under discussion, especially in our western world in order to enable a much more different pattern of demand and consumption and a better distribution of the scarce resources in the world that is growing and where we are seeing more and more inhabitants. So the question of growth and the fundamental assumption and the way it should be, is under discussion.

Mr. **Chairman**: At this point it is good to ask speakers to respond to these questions. Later we will get back to the audience and your additional questions.

Ms. **Lee**: I will take the questions in the order in which they were asked. I disagree with the second remark of the first questioner. I think the oil price crisis in 2008 showed us that we are also very vulnerable in the west to price volatility. It is not about poverty reduction here, it is about access to food, but nonetheless our system, as we found out, is indeed based on a complex political economy of resources. I will give you one example: BP and Macondo well showed us, and we forgot in fact for a long time, that every one in seven British Pound Sterling that goes into the UK pension system comes through BP. It does not mean they have created the income but that they have generated the cash. Oil companies' business models are huge cash machineries for our financial system, which means that even though we may not have growth direct impact, on physical security, we are still living with economic security risks from price volatility.



Secondly, I agree with you that we should probably distinguish between resources with prices and resources without prices, especially if you are an economist. Indeed, I would absolutely agree that we need to put right prices to resources that are currently not priced and of course we know that we are not pricing even remotely enough in many of the aspects of the social economic life.

However, if you are looking at, for example, an oil producing Gulf state, the challenges they face today are as follows: they are looking at increasing domestic consumption and they want to continue their access to the export earnings. Hence, they need to build more nuclear power stations or other power stations in order to make sure that they will save the oil exports for export earnings. In order for them to have nuclear power stations to meet domestic demand, they need more water so they need to fund solar power for desalination to get more water, so that the nuclear power stations can be cooled.

Meanwhile they are investing in Africa where there are going to be, where there will be some, not many, climate change winners in terms of water, like Tanzania where we hopefully will have a net gain in water resources. If you look at it from that perspective as a policy maker, a policy planner, it does not seem to me whether or not the resources of prices are important. Because these decisions are often made in isolation of each other, so part of this is about how do we get a systematic way of analyzing these complex interactions?

The same goes for my answer to the third question about nuclear power. I personally am a nuclear agnostic and by that I mean ‘not in my backyard’ but nonetheless perfectly happy with it. I grew up in Hong Kong, I moved to the West when I was sixteen, in the shadow of the Daya Bay power station in China and we were not that happy that we were quite far away from the governance of the power station and had no say in whether or not it should or should not have been there.

Nuclear power in the western world is very dead at the moment. If you look at the actual numbers, the increase has flattened for the last 20 years. Planning permissions have been harder and harder and for the safety standards that Europe needs you look at the escalating cost of the Finnish station, etc. I just do not see how it could be necessarily efficient anymore from an economic perspective which means we will have a huge power gap if we do not resolve that issue.

We also look at China today, which as far as I am concerned– and I am not entirely sure whether this part could be kept off the record– the Bureau of Energy Statistics are giving you crazy numbers about the number of nuclear power stations they would build – 100 GW in the next 10 years.

Crazy numbers, crazy enough to think that all it takes is one, one bad incident to derail in fact a lot of the supposedly decarbonisation efforts in China.

But what the Chinese are doing is potentially showing how you can scale up nuclear energy in a way that the French did in the seventies and potentially in a cheaper way. So we do not know whether they will succeed but I think if that is the case we will see, whether we like it or not, a lot more nuclear energy everywhere in the world. The UEA talked about the Korean model because this was cheaper and obviously correspondingly it means that it is less safe. So I think that even in that area, where Europe traditionally does have competitive advantage, we will be facing competition from other models too.

But in terms of the effects – I take your point – that if it were about more expensive power, then I would have thought renewables are also quite good examples in addition to nuclear as the kind of thing that can bring low carbon resources to Europe.

On the questions around dispute settlements, obviously trade related ones already have the WTO as a mechanism. But often, especially when it comes to resource-related questions at the national or local level between foreign companies and domestic governments are resolved elsewhere. As I mentioned

there are international court settlements for international disputes, which by the way I think in fact we are also studying at Chatham House: what sort of disputes get referred to arbitration and what sorts do not, between foreign companies and host governments? We also see now an increasing number of them being resolved at the ICC (the International Chamber of Commerce) as well.

As with the speakers this morning, I think that we will have to look at a hybrid system where there will be regional mechanisms for mediation together with global ones where that failed. So this would be a good piece of research for the young people in the room if their interested into looking at whether or not there can be more effective mechanisms that do not take 5000 years and long dispute settlement panels and at the same time can build trust and create the kind of conditions that would in fact minimise conflicts in the future. So the WTO will be part of it, existing mechanisms will be part of it, but what I think will be likely to happen are more regionally based mechanisms, ones that will reflect the kind of production structures that we are seeing evolved today and the type of relationships that we are seeing between different type of states.

Last but certainly not least, can we afford the current growth model? As I said earlier, poverty reduction for the 400 million people that are living in poverty in China looks like this, it looks like resources challenges. I am not remotely wise enough to answer that question, but what I do know is that we have to ask ourselves some of the basic assumptions about our social economic life. I do not think life style change is a particularly easy way, or a particularly good guidance for future policy, so let us hope that at least on the innovation side technologies can help us do some of the lifting. As could savings and resource efficiency of the sort, for example, that the European directive that was announced last week has mentioned.

There are some good examples, however, that I heard recently. The UN Foundation was telling me that they put together, or that they were facilitating a discussion between Alcoa, which is a aluminium company, Coca Cola, which is a soft drink company and Walmart, which sells a lot of soft drinks and by making them work together, they found a way to increase efficiency much further than what they could do individually, so the sum of the parts is much better.

So what we would also advocate on the resource-efficiency side are more strategic interventions on supply chains where there are market powers that could in fact bring much larger resource savings than we thought was possible in the past, whether in terms of substitution for materials, refrigeration time, transport time, et cetera. There are great opportunities along the logistical chain that I think we are just beginning to tap.

Mr. De Graaf: Well, I cannot add so much more to the very good answers of Ms. Lee, but let me try to take it from the political perspective.

I am an optimist by birth, but being the Chairman of the Foreign Affairs, Defence and Development Corporation, I am not so optimistic about the question whether the world will be ready and able to solve the problems we are confronted with now, where resources are concerned. When we look at what we are doing at this very moment, we have the millennium development goals of the UN and we have tried to set up a system with which we can reduce poverty possibly to a minimum. But when you see all the problems we are facing trying to reach those goals, then you could ask yourselves when the resources are becoming more scarce, won't it be much more difficult to come to some agreement towards a sort of redistribution system of resources, because at this moment it still is a question of money. Stop pumping money – the western world – stop pumping money in trying to reach the development millennium goals, it is a question of buying medicine, of buying food, and so on, but when the resources are growing scarcer, then national politics will ask for country first and then the world I would rephrase it. That will be our biggest problem I think, in the national states and can we then come to a redistribution system of resources and not of money. That will be the biggest problem we will be confronted with in the future. I can't give you the solution of this problem at this moment. If we are not able anno 2011, to come to good solutions on the basis of redistribution of money, will we then be able to do it when it is not a question of money anymore, but a question of the amounts of resources that we will have to divide between all the countries, all the people in the world. That will be really the problem.

I think indeed, as this morning some speakers said, that national interests will be very dominant in the coming years and if we cannot succeed in coming over those national interests and making some agreements with one another then we will not succeed in dividing and distributing the resources that we have, that we will have in big silos like in the times of Egypt and the famine in Palestine, we will have some sort of repetition of history. The food will be in the one country, they do not need it all, but they will not be able to give it to other countries to divide it amongst the poorest people in the world. I think that will be the biggest problem we are facing. I think that is the first thing we will have to solve, will we be able to be successful in this field.

Mr. Chairman: Thank you! Before going back to the audience, I would like to put one additional question to you Fred, given your role in relation to this, as one of the manuscripts of Bernice Lee I saw, spoke about a struggle for resources and as you say The Netherlands is so strongly internationally involved because of the nature and the type of economy that we have in terms of being attached to the outside world, as Willem Post very clearly

summarised today. Do you think that The Netherlands, or maybe even broadly spoken Europe, could play an active role, not only acting in its own interest, but also to play a good role in this international management of redistribution?

Mr. **De Graaf**: Yes, I think so and I think the speakers of this morning also spoke those words, but the first, most important precondition for that is that we will be able to unite Europe really, because now also this morning, we heard that the tendency to look inwards rather than outwards is growing in Europe. We also see that in The Netherlands, two of the out coming political parties do not have any feelings with Europe, the Socialist Party, and the Party for Freedom. So that is a big problem. They are growing, and if the tendency continues to look more inwards than outwards we have a big problem in the 27 countries of Europe because we then turn away from the European common goal and then we will not be able to play any role at all on the world stage where resources and redistribution is concerned. That is the first problem we have to tackle. If we do not do what Elmar Brock told us this morning: get a real feeling for Europe and bind together and position Europe as a key role player at this point in the world, then we will not succeed and that is a big problem I think.

Mr. **Chairman**: We have some more questions and we will collect them now.

Mr. **Homan** (Clingendael Institute): I have a question on water. First of all I am always amazed when I read that at this moment we have eight times more freshwater than is needed for the world population, but we have a water scarcity because it is unequally distributed in the world.

I also have a question on Asia; more than 40% of the world population living there is dependent for the greater part for water on six rivers which are originating on the plateau of Tibet. China is building dams and is making detours from these rivers to drier regions. We also see that farmers almost do not have to pay a price for the water, so they flood all their lands and India especially is complaining about this because they are the for the greater part dependent on this water. As far as I know, but I am not sure, the UN has concluded a convention on the distribution of water among the upstream and downstream countries. What is the status of this convention at the moment, can that be a solution for more, at least regional cooperation?

I read that distillation, i.e. making freshwater is becoming one of the solutions. It is becoming cheaper and cheaper and it is already practised in the Middle East but also in Australia, can that be in the longer term also be one of the solutions for coping with water scarcity?

Mr. **Kraaijveld** (The Argumentation Factory): We are still in the phase of problem analysis? Okay, so I was wondering, scarcity of resources of course, as you all mentioned and officially linked to population growth, is that not part of the problem we should look at and talk about here?

Mr. **Wolvekamp** (Both Ends Foundation): I might be trespassing the boundary between problem analysis and angling for solutions, but I have a question for Mr. De Graaf, reflecting on this morning's discussion, the Netherlands' and Europe's span of control or span of influence.

My question is on two levels, at one level, what scope is there for The Netherlands to step up now it still momentum, its investments in governance especially in those areas from which we derive our resources. So it is about, as mentioned earlier, like dispute settlement, so when it relates to coal or other agribusiness commodity, it does not matter. Those travelling in the field see that notwithstanding all the kind of supply chain certification schemes – that are very important – but the nitty gritty at ground level-sort of investment in governance is lacking. For instance on dispute settlement, huge conflicts ecological, social, in areas where we derive our resources from. Whether it is from ODE which is now being reduced, or from other sources, might be immaterial, but it is a key question.

You mentioned the Netherlands's main port, Rotterdam, and the bio-based economy; we are a big transition and processing node for the petrochemical industry, the agribusiness industry, iron ore, coal, et cetera. Are we a neutral player or, as some of our colleagues say in Brazil or in Kalimantan are saying that our Rotterdam or Eemshaven is 'eating' into the Amazon, it is eating into Borneo, because you are not a neutral player; you are fuelling a resource appetite. What kind of ambitions are there in terms of foreign or foreign economic policy to use your span of influence or span of control?

Mr. **Van Acker** (Student political science, Radboud University): As a political science student I am mostly interested in the security questions revolving around this topic, so I have a question for Ms. Lee. You briefly mentioned the REMs and their usage in military technology, for example in micro chips, I was wondering what the possibility is that there might be a new arms race revolving around these REMs in the near future, especially because they are so rare, not only in where they are located but also in the amount of materials that is to be found.

Ms. **Lee**: Let me take the last question first. They are not rare, they are just expensive, and there could be supply responses. I think this is one of the most important things to remember; right now the problem is that China has

been producing most of it. A lot of plants have shut down in Japan, partly for carbon reasons, partly for others, but Japan before China was the largest producer, because a lot of these are by-products of metals processing. There could be tons and tons of the stuff out there but it is just more expensive. The question here is about affordable access at this point. If you do not have affordable access today, you may be left behind in innovation for some of the new technologies. They are called rare earth metals, not because they are rare. A chemist explained to me that it is because they are discovered later. As I said the fight now is about price and access and protectionism in China. Export bans and restrictions of that sort are obviously not supposed to happen under WTO rules.

Desalination I hope can be one of the solutions, but as with most new technologies we are beginning to look at the impact they may have on surrounding sea water when you put the salt back in, and are already seeing, for example in the Gulf, areas to have impact on the fisheries. So as with most new technologies obviously we need to invest, wait and see and make sure it is of the safety standard.

I am not a water expert, I suggest you talk to David Grey at Oxford University who is very involved in the convention and who can give you a much better answer in terms of how and whether or not it could provide a long-term governance measure. I am relying on his analysis myself to understand the situation. But what I do know is this: in transnational settings water often has been a source for cooperation, so the legend says. But what happened is that a lot of the sharing agreements are based on volume rather than on actual share. So, the upstream or downstream agreement could be about the volume of water rather than whether or not each side would have a percentage. This means that those historic water agreements are founded on the power relations of that time, so we do have a question about whether or not these transboundary water agreements are going to be resilient in change: resilient to upstream changes and resilient to downstream environmental changes. This to me is a major and important issue for the lawyers to look at.

Mr. De Graaf: I will try to answer the two questions that are very difficult indeed. The first question was whether the Netherlands should invest more in those areas and fields where it gets its resources from in terms of mediation, conflict solution, and so on. I do not know exactly what to answer to that because we are already trying to influence those areas and fields in countries we are depending on. You also have to meet the particular questions the countries will put forward to you. Do you have the possibility to influence conflicts in other countries? At least the countries must be willing then to accept the mediation of the Netherlands, which is not always the case. Of

course, in Western countries I can imagine it would be easier than African or Asian countries.

I do not know whether more investments at this time would be possible considering the huge cutbacks in our budgets. Giving money in other destinations would perhaps be possible within the budgets that we have at this moment, for instance the 0.7 million, the percentage of the gross national income that we spend in development cooperation. That could be one of the issues of the near future.

Did I understand your second question correctly when you said that the bigger Rotterdam grows the more resources we attract, and should not we moderate it in some way? Was that the meaning of your question?

Mr. **Wolvekamp** (Both Ends foundation): Simply put, like a transportation hub: is like throwing hands up in the air, or can you give in terms of fiscal tariff policies and what have you a preferential treatment to a different kind of commodity transfer to fuel the European energy factories?

Mr. **De Graaf**: I think judicially and practically that would be possible. You could make some loss if you would want to but I think economics are prevailing here. Rotterdam is making huge plans for oil transportation. The oil sector is growing very fast in Rotterdam; more than 70% of the new area is prepared as oil storage. So, energy is at the front row of the economics of Rotterdam harbour. But technically and also judicially I think it would be possible. You could redirect it if you wanted to. That is a question of priorities. Would the European or world market ask Rotterdam to make a change in the redistribution of some goods? The economic situation would be the first indicator for that and Rotterdam will react accordingly. If it does not want to you could do so by changing laws and make it do it the way the world economy or the scarcity of resources would demand.

Ms. **Lee**: I do want to tackle quickly the population question. I personally find it very hard to find a solution; I do not think it is easy to challenge anyone's reproductive rights. Secondly, China has already come through 30 years of One Child Policy. This means we are going to deal with a China with young spoiled people without siblings and soon without cousins. If you do not have siblings and the older generation is down, and you are talking about a bunch of youngsters -- mainly men -- who have only seen growth for 30 years, I do not even want to begin to think about the social implications of that sort of policy. I just find it very hard to know what it would mean if we are doing something about the population and find a way that square the circles. Education is always the silver bullet.

Mr. **De Graaf**: I think nobody in China would have thought about restraining the amount of births the way they did if they would not be busy to fight poverty. In fighting poverty and in a growing wealth situation the natural selection system ends. When you have many poor people and a very high mortality rate among children, when you lift 400 million people from poverty – as we have heard this morning – there are more children and then there is another problem. China reacted as it did, but as a result of that it will have the social problems of the future. In this respect I completely agree with Bernice; we cannot even imagine what it means. It will be a very egotistic society in the near future, because nobody has learned to be social, being the only child and spoiled by your parents.

Mr. **Chairman**: Thank you for coming back to that point. I think we have already passed the border between problem analysis and solution. That is good, also looking at the time. I would like you to focus on the ideas for strategies we heard from the speakers and previous discussions, to think in a long-term perspective and to consider resource efficiency, technologies, innovation, and resource governance. We also had some discussion about more and less attractive solutions. So, I would invite you to give input on that perspective. But first, let me get back to Ton Manders.

Mr. **Manders**: (NEAA): First, let me add something to the population issue. Of course, in the end scarcity is driven by population growth, economic growth, and changes in the economic structure like dietary changes. The world population will grow from 6 billion to 9 billion by 2050. We are in a demographic transition, so growth is slowing down. That is the good news.

The increase in economic potential is actually much higher. The population will increase by 50% in the next four decades, but the economic output will grow by four to five times in the next four decades. That is much higher pressure than the population itself. Even more important are the dietary changes, changing towards more meat. The good news is that the population is not the big issue, but economic growth is.

Let me turn to solutions. We have a scarcity problem and basically there are two strategies to cope with scarcity: increasing supply or decreasing demand. For increasing supply you could try to explore more resources, but in the end that is not a wise strategy; one way or the other it is limited in the end. From a sustainable perspective that is not a good thing to do. You could try to be the first to have the resources and that is what is actually happening now. We see that from South Korea or China is buying land in Madagascar for example – land grabbing – or when China is having export restrictions on rare earth elements. It is trying to be first. In my view that is not a very stable strategy.

Ms. Lee: It was not Madagascar, it was Korea!

Mr. Manders (NEAA): Yes Korea, almost 50% of the available rural land.

The third strategy could be recycling, using your materials more and more over again. There is huge potential in that, and that would be a very wise strategy to follow. On the demand side there are some options, too. You could try to change behaviour – that is a very hard one, I would say – for instance eat less meat for example, turn to chicken instead of beef. We could look for substitutes. Europe has a very strong potential in finding substitutes. Resource efficiency from a number of perspectives is of course a very wise thing to do. It will not only help you solving the scarcity issue but also climate change issues and bio diversity loss. In summary, go for recycling, resource efficiency, and try to find substitutes.

From the audience: Thank you very much Miss Lee and also Fred de Graaf for your very interesting introductions. I would like to come back to the settlement of disputes. I was immediately thinking that we are in The Hague, the city of all these international legal institutions. Have there been any studies about this? When you talk about settlement of disputes it is about security or about scarcity; in what form would you put this phenomenon? Did you already make a distinction? Mr. Holman already mentioned the scarcity of water; last year there was a dispute about Tajikistan and Uzbekistan about the water flow in the river. But there are also disputes regarding the transfer of resources and these have not been mentioned. There are also disputes about the deliverance of gas and oil between two – or more than two – state. How would you see this organisation? Would it not be idealistic – though we should be idealistic – that states would join or on a voluntary basis ask for settlement of the dispute? Maybe you do not have the measure for implementation.

Mr. Trompert (Student international relations, University of Groningen): We are talking about international negotiations to solve these problems today. I would like to take the liberty to conclude that international negotiations, among nation states are not very effective. I recently read an article that said that more or less than 70% of CO₂-emission comes from cities. Is there a possibility that for instance the 27 mayors of the capitals of the European Union conference to find a solution for these problems? Are there any possibilities to negotiate with different levels of governments than nation states? I am especially interested in the perspective of the mayor of Apeldoorn in this respect.

My second question is more or less a tip: if you want to solve problems in the future, you have to invest in education and innovation. I would recommend to all 27 member states of the EU to not cut back on their budgets for education.

Mr. **Manders** (NEAA): Just a quick word on dispute settlement: I think it is important to remind ourselves that we need not only look at states. If we look at large resource flows, companies and also sub national entities are involved. I am chairing a round table sustainable palm oil dispute settlement facility working group and actually the private sector, local communities, and experts are dealing with it, because companies are by certification standards required to solve their disputes. That leverage can be expanded. Earlier on I asked a question about making resources available but it is also looking creatively in these arenas, in which private companies and civil society organisations are already putting money. So, let's be creative with the arenas we are talking about.

Ms. **Prins** (Student political science, University of Leiden): I just wanted to add that especially the topic of this conference about the role of the Netherlands in all this. It is actually a very big problem that there are going to be cutbacks in our higher education, because this is a multidisciplinary problem. As a political scientist I would love to say lots of intelligent stuff about this, but I am just not educated like that until now, so I had to do another study. That is the key to innovation: to get multidisciplinary intelligent and highly educated students who can actually say something about the contents of these problems. So, with regard to the role of the Netherlands I think this is why we are going to go downwards in innovation in the future.

Mr. **Chairman**: We again have a very interesting bunch of questions and comments also from the young generation that will have responsibility in the near and probably long future, and their input also connects to a very topical debate at hand about investments in education, innovation and science. Please Fred, could you start up now?

Mr. **De Graaf**: I will but do you agree that I first try to give an answer to the questions of our students, since they are the youngest among the attendants today?

It is an interesting question you raised about the other levels of government that could perhaps influence international relations, international politics. There are in fact a lot of examples of it, for instance the 'Mayors for Peace', originating in Japan; the mayor of Hiroshima chairs the group and all over the world mayors are members of that still growing group of governors. I myself am a member and we try to make some contributions at the international level, especially the UN and other international organisations, to attribute to peace in the world. But you need a platform for that.

Another platform is in the EU; the regional authorities are organised there and also have a vote in Europe. They are represented by mayors and aldermen from the 27 countries in Europe and influence the internal affairs of the European Union.

Another example – and that is near to my heart – is that many other communities like Apeldoorn are working on the international level, in bilateral connection with other cities. Apeldoorn got into contact with Banda Aceh one month after the tsunami. Everything was gone there, the only thing that was still there was the mosque. They had to rebuild everything. They lost 100,000 people amongst whom almost all civil servants and the members of the city council and the mayor. We first took on as first priority the waste management programme, because there was a lot of rubbish after the tsunami threatening the health of the remaining people. So, together with the Roteb from Rotterdam we succeeded to set up a very modern system of getting rid of the garbage within two years. Since then, Banda won the prize for the cleanest city in Indonesia three times in a row. It was a great success. After that they asked us help and rebuild their administration. One of our civil servants went to Banda and worked there for two years, paid by us via the LOGO South programme of the Association of Netherlands Municipalities (VNG).

And there problems arise because the Parliament, at the other side of this square, is doubtful about the success and the opportunity of lower government levels to work together in an international field. In fact, they want to forbid it; it must end. So, we are now in discussions with Dutch government about whether we are permitted to go on with our work in the international field. We pay for it ourselves; we do not ask for money to the central government. Are we permitted to go on or are you going to restrict us legally to do something at an international level because we would intervene with the foreign policy of the Netherlands? That discussion is going on and it will end here, in the Senate. You will understand that I will contribute to that discussion.

Your colleague talked about innovation and the restrictions in student time. Hearing you asking the question, seeing you, and noting that you are here today to listen to us and to the speakers of this morning, I am sure you will succeed within the six years that you get without having to pay extra money, that you will succeed in getting your exams and your Master's right in time! Then we hope to see you again in the political arena to participate here in The Hague in our debates. I understand your problem but we are at the end of the discussion. You read the papers and you will have seen that the state secretary has already put an end to his scheme to have the universities pay a fine for transgression of these six years. So, it is still up to the students now. To that he will hold on: you will get four years plus two and that's it.

Ms. Lee: On climate change we need everything, so it is very difficult after Copenhagen to have faith in international processes but at least what we got out of Copenhagen is an understanding that national action – and perhaps mayor level action for that matter – is a foundation of and not a result of necessarily international negotiations.

I also believe that without Copenhagen, we will not see the proliferation of the level of actions we are seeing now at a sub national level because we do need the global process to set the ambition and help us set a time line and remind us of the urgency. My gut feeling is that we need both. Someone who just recently got appointed to a very good job at the UN was telling me: You know Bernice, we all know that working for the UN, 70 % of the time is painful, bitter bureaucracy, but the 30% when you can do something is absolutely amazing. I think that is probably why a lot of people, despite the pain of negotiations would still like to see some result. It is not an easy hatch to make but we must be able to make those. This relates to the question around increasing supply or decreasing demand. I absolutely agree and I feel strongly that the substitution agenda does not come high enough on the global agenda and certainly not high enough on the European agenda.

The resource efficiency directive provides an opportunity for the substitution agenda to come forth and an opportunity of the sort I was trying to describe earlier in improvements along the supply chain. Perhaps we could have even a structured way to look at the kind of substitutions that we want and need, and encourage innovation in that direction. I often laugh when people from the cement industry tell me that it is a technology that has been optimised over 120 years. I just look at them and say, but you have not changed much, have you? It is time for us to look at all materials, whether it is building materials and otherwise, and make sure we do have the kind that substitution needs.

If I may add to the student's voice, in the UK recently we are looking at tuition fees and regardless of how I feel; I certainly felt that no one had asked me whether I wanted to use my tax money to pay for my education. I certainly would. I think it is actually a terribly good investment of our tax money. I was in the UK as a foreign student when I first got there and I was lucky to get scholarships. That was hard and I cannot imagine students today trying to make a life in the world particularly on that kind of loans, if they do not go into a banking job. This is seriously worrying. I know this is way beyond my competencies to talk about this.

Mr. Manders was talking about sustainable palm oil. I have looked at that and I was going to ask him a question: how would he mediate a dispute between a state-backed company with a local community that potentially had separatist

tendencies? I think that we have a lot of instruments. So, to answer the lady's question we indeed need to be careful about the arena. I must confess I am way out of my depth here. I would suggest first to looking at existing arenas, looking what the gaps could be. My recommendation was one for mediation and not just dispute settlement. Potentially, this could involve a lot more non-governmental actors, too and not just formal mediation mechanisms. We also find in, for example, the debates on illegal logging that the legality discussion had been helpful in helping to frame further discussions around forest governance. The EU for example had interesting mechanisms that are now driving changes in a number of producing countries. Perhaps if we start thinking about mediation and anticipating problems we can come up with the kind of mechanisms that will stop us from going to mediation.

But I would like to ask Mr. Manders to respond and tell me what happens if a state-backed company gets into dispute with a local community. Who does he think in the case of palm oil should be the right place for mediation? Should it be the national courts or should it be international courts? I think these are difficult questions to grapple with.

Mr. **Chairman**: Thank you very much. Because we are moving on in time I would ask you if there is one burning issue you might want to address. You are free to ask; otherwise I would like to ask one final question to the speakers, connecting to what Ton Manders said that behavioral change is so difficult. I would like ask both of you, can we do without behavioral change or should we work at it?

Ms. **Lee**: I force myself to buy really expensive things so that I do not have to buy them again. That does not seem to be a solution for the less well-off people. Re-use, recycling, and rethinking how we plan our resources evidently are part of the thinking. I just do not think it is easy to ask people to roll back their life style. That does not mean we should not try; we just should not count on it as a strategy going forward. Again, it does not mean we should not try; it is just hard to imagine that a whole generation of middle class people in China would want to give up their cars and their air conditioning any time soon.

Mr. **De Graaf**: Do we need behavioral change? Yes please! We need it, especially in politics. I mean that. We will not be able to solve any problems if we do not change with the changing world. Bernice told us that we cannot solve problems of the future when you stick to your past methods. That is impossible. We have to change with the changes in the world. Absolutely! But will we be able to change? That there are a lot of examples that show that people can change but you have to set a price on it, you have to reward them.

I can give you an example of garbage again, with recycling. In Apeldoorn we gave people the chance to present all their 'green garbage' for free.

The amount of separation of the 'green' garbage went up to almost 90%. Since 3 years, Apeldoorn can pay back the price for garbage disposal. So yes, people can change but you have to reward them. The same goes for politics, nationally as well as internationally. People will always ask 'what is in it for me?' When you reward them in such a way that is going along with the goals you are trying to reach, you can also change the political behavior of the politicians in the world.

Mr. **Chairman**: I think these are nice words to end this session. I think we have observed that the issue of scarcity of resources not only provokes discussion focused on this specific issue but turns out to relate to all important issues of national and international policy. Also, the innovation issue has strongly come up.

We have heard a lot. It will be recorded and will be put in a report. Any ideas that have come up with will be at the centre of the table also of the Senate. We heard from Fred today that if we speak of behavioral change there is also an important invitation and challenge for politicians. That is a good thing to hear in this building. That implies to take responsibility nationally, internationally and especially today in the European arena.

Thank you Bernice, and thank you very much Fred. That was a very good performance.

Thank you very much for participating and for sharing this session with us. You have deserved a break. Thank you very much.

Conclusions & Remarks

Uri Rosenthal



Mr. **Korthals Altes** (AIV): Ladies and gentlemen! Welcome to the Minister of Foreign Affairs. For some of us this tea party was a very short one. Probably a good idea for other tea parties, too, not to last too long! It is an honour for us and for me to have our Minister of Foreign Affairs in our midst.

Address by Mr. Rosenthal, Minister of Foreign Affairs

Thank you, Frits. How should I start? It is a honour to me because I have been here for ten years as a senator, the last five years sitting left of the pulpit and now on this side of the hall, but with very warm memories of the beautiful years in the Dutch senate. I will not be seduced by making remarks how it feels when you see the Senate from a different perspective nor will I reveal the secrets of the Ministerial Council, where we sometimes also talk about Senate wheelings and dealings. That is the secret of the Trêveszaal. Even today, the Senate was part of our discussions on our regular legislative work. So, the connection is there.

The conference on power shifts in a changing world order, the role of the European Union and the position of the Netherlands is a subject at the heart of the portfolio I am working on. I think it to be best now to get straight to business, to the core and the heart of the matter. The Dutch government in its foreign policy is really working its way to strengthen the position of the Netherlands in the world. It is about values, interests, mutual interests and about meeting today's challenges. In a world so competitive and unstable in many ways and so fragile in many regions you really have to be strong in the field of safety and security considerations, you have to be strong on the economics' end and also in the domain of human rights, human values, individual values and what have you. There you immediately see the three pillars of Dutch foreign policy in this era: it is about safety, security, and stability, it is about promoting the economic interest of the Netherlands and about human rights. These are intermingled.

Now when we look at these three pillars I am not ashamed at all – some people are ashamed about it, feel unpleasant or feel at disease – to say that one of the foremost objectives of the foreign policy of the incumbent government is simply to promote the economic interests of the Netherlands. It is needed to do so. We have the world's 16th largest economy, the 7th largest financial sector, and the 3rd largest exporter of agricultural goods. I do not know whether Jan Peter Balkenende talked about it this morning, but he is now at Ernst & Young's, so his latest globalisation index puts the Netherlands on the 8th place for trade, capital flows, exchange of technology, labour mobility, and cultural integration. So, we have something to defend, but to defend something in the world we are living in today you need to be offensive, too. You cannot work from a defensive stance.

We start from a strong position but competition is fierce. We should realise that in what we are doing and in what we are not doing. We have to be selective; we have to use our strength, our energy, our time, our attention, and money in a selective way. We have to work our way to the extent that we really give added value to what we are planning and doing. I do not tell you any secret – and you have already discussed this – that the West is in debt whilst others, like China, are holding the reserves. Our growth rates are lagging behind those of other countries, most notably in Asia. This week I was in Turkey and its growth figures are formidable. They are the world's largest producers of TV screens, of buses; they have the market for construction, for building materials and in a large part of the region they are actually monopolists. So, we have to do something about it and we have to understand new not only geo-political but also 'geo-economic' realities. They are unfolding and economic dominance moves in an Eastward direction. We cannot avoid that observation.

The question is not whether we have to engage internationally and to be outward bound; it is not a matter of fencing ourselves in. Not at all; that would be very short-sighted. It is not a matter of whether we engage internationally but of how we do it in order to maximise the results we can achieve.

In that sense, when we are talking about engaging in the international arena, we have to work with others. There are no principal reasons to choose one partnership over another. I would say to the connoisseur: there we go. We are taking a pragmatic approach, working with what works best. We want to invest constructively in partnerships throughout the world that help us pursue our interests in the most effective way. We can do that strategically, tailoring our alliances to our interests and values. We will do so both bilaterally and multilaterally. And there indeed we go!

We are of course investing in the European Union. The Scientific Council for Government Policy is right in itself to conclude that European integration and cooperation have been of paramount interest and importance to the Netherlands when it concerns prosperity and stability. The Dutch government continues to be a critical and at the same time very constructive member state of the European Union, if only because it directly serves our interests. Three quarters of our export goes to EU Member States and we stand to gain if we can further improve the common market. When it is for instance about the liberalisation of the services' sector we want to go forward and carry it through, as was discussed a short while ago between Prime Minister Mark Rutte and his British counterpart David Cameron. We are a critical and constructive member state of the European Union because it directly serves our interests. We are not dogmatic but we do cherish conditionality; when we set criteria for entering the EU these criteria should be followed, pursued, and realised.

With regard to the European Common Foreign and Security Policy it makes sense for us as a simple matter of scale – let me say that explicitly – to say that 27 countries have greater impact than any of those countries can. This Common and Foreign Security Policy is also a matter of efficiency. We should not duplicate in our foreign policy what the EU can do well. There are a lot of comments – this week for instance – about the stance the EU takes with regard to Egypt. Yesterday, in Parliament, the Prime Minister, and the State Secretary for European Affairs and Development Cooperation and myself had a debate with the Second Chamber about the stance on the part of Europe with regard to the Egyptian situation. There were many complaints about the fact that the Big Three, the Ad Hoc Five, and in a way some other ad hoc coalition were issuing statements on the situation over there. On top of that or next to it the High Representative of the EU, Cathy Aston, was also present with statements. The Council of Ministers of Foreign Affairs also came out with a

statement last Monday. When you look at these statements you see they are similar. There was another thing that we should reflect upon, which was discussed in Parliament yesterday. Parliament accepted it; the simple fact that we are now one year after Lisbon and that we have to get used to the new arrangements and that we have a High Representative for our foreign policy. It is a matter of getting used to it.

I am not pessimistic about it. But let me add to the story about the EU as a whole that we do not limit ourselves to a perspective on the EU at large. That would be short-sighted. Within the EU the Dutch government will seek out coalitions that can help move things in the direction we want, for instance the Benelux. It looks small but it can do something on the European end. When you look at the smaller countries in the EU it can help for instance, as we try to develop, to have regular meetings with your Baltic partners, the Visegrad Group, or the Nordic countries as we are now planning to do. Small can be beautiful and mid-size plus small can be big size. Outside the EU we seek to participate in bodies like the IMF, the World Bank, and the G20; bodies that can influence and strengthen global economic governance, something that directly affects us. That is the EU stance. But that is not enough and it is not the only thing that is on the table.

Transatlantic cooperation remains equally important. It is the second anchor of Dutch foreign policy. It has been and will be a cornerstone of Dutch foreign policy. I talk about the US and to the Canadian Ambassador, and I say 'Canada, too'. I say it quite emphatically and you know that I mean it. If you would consider this to be a common place – Transatlantic cooperation remaining equally important – let me say that I am still reading my books and my literature; just pick up the latest Foreign Affairs of December 2010 and you will be convinced. I do not need to add anything to that.

Let's look at a couple of examples or let's limit ourselves to one; let's take the Egyptian situation. There you see how important American endeavours indeed are up till today. When you read the declaration of the European Council, which has just been issued, you see what we can actually do. When the Americans take a position, we take a similar position and we join, then we can really act upon it. Let's face it, the US is still the dominant force in the world, and we are well advised to continue working closely within the Americans, within NATO as well as bilaterally, and through the EU. To give another example: when we talk about the Middle East peace progress it is my strong conviction that when the Netherlands or the EU as such takes initiatives these initiatives should be conducive to the US endeavours in the Middle East. I have said so over and over again.

It is not only a matter of EU and the Transatlantic Alliance. The Dutch government is also looking carefully into our bilateral relations with the emerging countries, with these wonderful acronyms that are so difficult to pronounce. One is pronounceable: BRICS, which is including South Africa. But the new one, the MIKT – Mexico, Indonesia, Korea, and Turkey – is a little more difficult. But they are powerful.

There is also the Next Eleven, which are developing at tremendous pace. That is the source of part of our future prosperity. When in these countries governments play a major role the Dutch government should of course put in its economic diplomacy as a frontrunner of our foreign policy. As a fact of present life – at least to me – we are busy, reorienting the network of Dutch embassies and consulates and even more of the Dutch structural arrangements in the international arena. It is important to understand that we are going to face a shift of resources in our foreign policy, reflecting – I take the title of the seminar seriously – the power shifts that are taking place in the world. A more dynamic kind of diplomacy is needed to serve Dutch interests in this quickly shifting world. It is helping to serve Dutch interests better. When I am talking about ‘Dutch interests’ I do not only mean interest in the narrow, commercial sense, although these are important of course. I am also referring here to our strategic long-term interests. There economics joins, associates with security and stability. Trade and business can only prosper in a stable international environment. Look at the losses suffered now by Heineken, Unilever, and AkzoNobel, now that unrest has forced them to shut down their production in Egypt for a considerable time.

Economic diplomacy means also more than merely promoting trade and investment. It is also about taking into account our geopolitical interests and ensuring the flow of strategic goods, energy sources, raw materials, and special category raw metals, the things we need to keep our economy going, to sustain ourselves. We have really to do something about it. It is important that the EU, the European Commission, presented a revision of its raw materials initiative two days ago. That is important. If I look at this side of the medal we are perhaps lagging a little bit behind other countries in taking this ‘geo-economic’ and geo-strategic interest seriously. We have to understand strategic goods, energy resources, raw materials and rare earth metals are part of the scarcity of today.

Ladies and gentlemen! Our foreign policy for the years to come is built upon three pillars: stability, security, and safety; one, second, and now pushed forward by the Dutch government economic interests, economic growth, taking our share of the international economic scene. These two join in many ways, as I said just a couple of minutes ago when talking about strategic goods, energy considerations, raw materials.

The third pillar of Dutch foreign policy is of course everything going with human rights. These human rights are also part of the story. Three pillars are not separate from each other; they are interlinked. Stability in the world needs the protection of human rights. A flourishing economy should in the end, at the longer term be based on following the needs for a decent life of the people in the world. What our foreign policy is in a nutshell, is grasping global opportunities to enhance Dutch security and Dutch prosperity. In a rapidly changing world we have to be very keen on the shifts of power in the years to come. With regard to the economic side we have to understand we have to look Eastbound with regard to safety and security, and a Westbound-orientation will be there to stay.

Mr. **Chairman**: Thank you very much for this state of the foreign policy of the Netherlands!

It is time for some conclusions and remarks. I am glad that Jaap de Zwaan is prepared to make the closing remarks for the meeting of today.



Frits Korthals Altes

Address by Mr. De Zwaan, Director of the Netherlands Institute of International Relations Clingendael

Thank you, Mr. Chairman. Although not being present during our today's discussions the Minister hinted at quite a number of issues that in fact were subject of our debates. Mr. Minister, in your address you focused specifically on Dutch foreign policy. Well, I learned from Age Bakker with regard to our GDP that the Netherlands is on the 16th position, with regard to trade relations on the 6th position, with regard to foreign investments the Dutch are worldwide on the 5th ranking, the financial sector on the 7th position, and development aid on the 6th position. So, we are supposed to really be a global power on our own, so to say.

However, I want to add another dimension. In our discussions we have paid quite a lot of attention to the subtitle of this conference, that is the relationship between our membership of the EU and the Netherlands as a sovereign country. In the morning session we have enjoyed four wonderful interventions, presented from the US perspective, the Chinese perspective, the EU perspective and from a Dutch perspective, from our former Prime Minister. All of them hinted at the role of the European Union in the worldwide debate. When it comes to power shifts in the changing world order we, of course, primarily focus at the financial and economic crisis, environmental policy, the scarcity issue, food, water, energy, and so forth but also foreign policy and defence. In fact, Kupchan, certainly Elmar Brok and also Jan Peter Balkenende made the argument that the European Union has to act and has to express itself with a single voice externally.

To the one extent, obviously it is true that the Netherlands on its own, has a lot of competences and capacity with regard to foreign investments. Indeed, it is striking; when you travel around in Europe and especially in the Eastern part – the new member states of the EU – you will notice that the Netherlands is either number one or at least in the top three of foreign investors.

That being said, we should give more attention to the role of the European Union when it comes to our substantive interests; this is true with regard to the level of our prosperity but also as to questions how the world is going to cope with issues like climate change, environment, energy, combat of terrorism and foreign policy: more particularly the impact Europe might have at the world scene with regard to decision making regarding these subject matters. In the afternoon I was present in the session on the global economic (im) balances, which focused on the IMF, the global governance system with regard to financing, as well as the Dutch and European position in that system of governance. The other focus was on the role of the European Union, because

of the existence of the EMU, and we obviously noted that today – the discussions in Brussels – a new process of Treaty amendment with regard to the strengthening of the EMU-system with regard to surveillance has started. I was not present in the other session but apparently a lot of attention was dedicated to the question what we understand by scarcity. Here apparently also the window of opportunity for the European Union was discussed in which context reference was made to the Copenhagen conference, where the EU was not able to put its position through but at least was able to present a common position in a vital subject matter related to the subject matter of our today's conference.

In today's discussion we have dedicated attention to the global governance system. From Age Bakker we learned more particularly about the intended reforms in the context of the IMF. We then stepped down to the EU level and perhaps we can take a few of our findings of today on board for the preparation of a next seminar. The Lisbon Treaty has indeed provided the European Union with responsibilities, not to say competences, in quite a number of policy domains that we have hinted at today. Environment has already been a typical European Union competence for quite a while. But energy has only recently –Lisbon Treaty- been added to the list of competence, as has climate change.

It leaves us with foreign policy and defence. As you rightly said, Mr. Rosenthal, it was not the single EU voice who expressed itself on the problem of Egypt and Northern Africa. I think Bundeskanzler Merkel went first, then President Sarkozy of the French Republic, and certainly also Mr. Cameron. We did not hear anything special from Baroness Ashton. I personally think – and, again, that's what we might take up as a subject matter for a next conference – that foreign policy is a vital topic for the role Europe can play on the world scene. When we discuss the issue of the EU as a global player we discuss of course the new personalities, the President of the European Council and the High Representative. However, the question is whether Lisbon has created suitable modalities in order to allow us to really develop this common policy, which may lead to a situation in which Europe really can have an impact on the discussion worldwide. That is perhaps something what we can take up for a future version of the wonderful conference that was organised today by four wonderful entities. Thank you!

Mr. Chairman: At the end of this meeting I would like to thank the speakers of today. Professor Zhang, revealed the tremendous historical, governmental, and cultural forces and even the culinary attractions of the superpower China. Professor Kupchan warned us for the changes in the US internal and foreign policy. He made us aware of our own European responsibility. Elmar Brok, Member of the European Parliament, gave his European vision. I would also like to thank our former Prime Minister Jan Peter Balkenende, who shared his experiences as a European leader with us.



*René van der Linden
Jaap de Zwaan
Geert Jan Hamilton
Jan Rood*

I thank those who acted this afternoon: Age Bakker and Carlo Trojan, Bernice Lee and Fred de Graaf, and also the chairmen of this afternoon, Jan Rood and André Knottnerus.

I thank the Minister of Foreign Affairs for his speech and Jaap de Zwaan for his final remarks.

Of course, the preparation of this conference has required some organisational work. I think that I can say that the four organising institutions – the Senate, the Scientific Council for Government Policy, the Advisory Council on International Affairs, and the Netherlands Institute of International Relations Clingendael – have worked together very harmoniously in bringing this conference together. I dare say that this has proven to be a very effective partnership, a partnership formed by the President of the Senate, René van der Linden. He took the initiative. We can be very grateful to him for his initiative, for his idea to organise this conference, to invite speakers from abroad, and for the subject of the power shifts in a changing world order. Thank you, René! He deserves applause!

On behalf of the steering group I would like to thank those of our staff who have contributed to making this conference a success. I would like to call one representative of each of the four partners. These four people had particularly active roles and with them we thank all their colleagues involved. From the Senate this is Eva Buitenkamp, from the Scientific Council for Government Policy it is Gera Arts, from the Advisory Council on International Affairs this is Tiemo Oostenbrink, and from Clingendael Johannes Kester. Thank you very much!

I said that the tea party was a very short one. Now, I have the honour to invite you for drinks, downstairs and for a longer time. I hope you will be back in future in this meeting hall as guests of the then President of the Senate.

Thank you very much, René!

Participants

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W. Asbeek Brusse	Scientific Council for Government Policy
M. van Asselt	Scientific Council for Government Policy
D.J. van Baar	Journalist HP/De Tijd
A. Bakker	Executive Director at the International Monetary Fund
J.P. Balkenende	Professor in Governance, Institutions and Internationalisation/Erasmus University
F.D. de Beaufort	Telders Foundation
M.L. Bemelmans-Videc	Dutch Senate
M.G. Bos	Social and Economic Council
M. Bos-Karczewska	Journalist Polonia.nl
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A. Boxhoorn	Netherlands Atlantic Association
H.G. Braafhart	Advisory Council on International Affairs
L. den Breems	Ministry of Foreign Affairs
T. van den Brink	Utrecht University
L.J. Brinkhorst	Leiden University
A. Broekers-Knol	Dutch Senate
E. Brok	Member of the European Parliament
A. Bronswijk	The Hague municipality
B.M. van Bruggen	University of Amsterdam
R. de Bruijn	Chamber of Commerce
R.R. Cano Blazquez	DNB
S.W.L. Couwenberg	Civis Mundi Foundation
L.E. van Dalm	Roosevelt Academy
F. D'Havé	Counselor Belgian Embassy
W.F. van Eekelen	European Integration Committee of the AIV
F. Evens	Flemish Foreign Affairs Council
A. Flanagan Whalen	Canadian Embassy
M.S. Gatta	Representation European Commission in the Netherlands
W.J.M. van Genugten	Vice chairman Advisory Council on International Affairs
P.J.M. de Goede	Scientific Council for Government Policy
L.Y. Gonçalves-Ho Kang You	Advisory Council on International Affairs
M.A. Goudswaard	Journalist of Het Financieele Dagblad



F. de Graaf	Chairman Foreign Affairs Committee of the Dutch Senate
C.J. Gradenwitz	Dutch Senate
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R.B.M. Grotenhuis	Cordaid
B. ter Haar	Ministry of Infrastructure and the Environment
J.T.A. van Haaster	House of Representatives
M.A. Hajer	Netherlands Environmental Assessment Agency
G.J.A. Hamilton	Dutch Senate
C. Hegeman	Journalist of VPRO
G. van Heteren	Dutch European Movement
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P. Kraan	Ministry of Foreign Affairs
C.J. Kraaijveld	The Argumentation Factory
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M. Lak	Ministry of Foreign Affairs
J. Lambert	Canadian Embassy
B. Lee	Chatham House
P.R.H.M. van der Linden	President of the Dutch Senate
A.J.G. Manders	Netherlands Environmental Assessment Agency
J. Melissen	Clingendael Institute
E. Molier	Ministry of Foreign Affairs
E.A.M. Nazarski	Amnesty International
E.R. Nolan	US Embassy

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A. Postma	Ministry of Finance
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M. Rem	Scientific Council for Government Policy
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J.A. Schout	Clingendael Institute
M.L.L. Segers	Utrecht University
J.G. Siccama	Ministry of Defence
B.J. van Sminia-Meijerink	Model European Parliament the Netherlands
A. van Staden	Advisory Council on International Affairs
R. Swartbol	Ministry of Foreign Affairs
H.W. Swarttouw	Ministry of Foreign Affairs
C.G. Trojan	Advisory Council on International Affairs
S.T.P. Trompert	Groningen University
L. van Troost	Amnesty International
B.M. ten Tusscher	Ministry of Foreign Affairs
A.D. Uilenreef	European Integration Committee of the AIV
M.L.M. Urlings	Advisory Council on International Affairs
R.J. van der Veen	Ministry of Foreign Affairs
I.L. van Veldhuizen	Ministry of Foreign Affairs
J.J.C. Voorhoeve	Advisory Council on International Affairs
K.G. de Vries	Dutch Senate

M.W.M. Waanders	Peace and Security Committee of the AIV
N.G. Wegter	Former member European Parliament
J.L. Werner	Ministry of Foreign Affairs
A.M.C. Wester	Human Rights Committee of the AIV
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F.IJ. Wolf	Maastricht University
P.S. Wolvekamp	Both Ends
J. Wouters	Flemish Foreign Affairs Council
W. Zhang	Geneva School of Diplomacy and International Relations
J.W. de Zwaan	Clingendael Institute

Organisation:

G.A.T.M. Arts	Scientific Council for Government Policy
R. Bakker	Weena Report
E.L. Buitenkamp	Dutch Senate
Q.J. Genee	Advisory Council on International Affairs
R. Kamphof	Dutch Senate
J. Kester	Clingendael Institute
T.D.J. Oostenbrink	Advisory Council on International Affairs
J.I. Petter	Dutch Senate
R. Riedeman	Ministry of Foreign Affairs
H. Westhof	Weena Report
L. Wittkowski	Dutch Senate
D. Zevulun	Advisory Council on International Affairs

Summary

Attached to the World: On the Anchoring and Strategy of Dutch Foreign Policy Scientific Council for Government Policy (2010)

The Netherlands is attached to the world. Few other countries are as closely interwoven politically, economically and socially with the world around us. That makes Dutch foreign policy a strategic affair. The Dutch government has to deliver an alert response to the risks and opportunities of a rapidly changing world. Today's world can best be described as hybrid in nature. On the one hand there is the familiar world of geopolitics and nation-states. That world is currently going through a shift in the balance of power towards the East. On the other hand there is the 'network world', populated not only by states, but increasingly also by non-state actors. State borders present virtually no obstacle to these networks. Seen from this perspective, it is no longer possible to speak of the foreign policy of the state; it is more correct to think in terms of many different expressions of foreign policy within a 'disaggregated state'. Increasingly, ministries and agencies have their own objectives in international affairs and participate autonomously in international networks, especially in a European context. As a consequence, the traditional distinction between 'domestic' and 'foreign' is becoming increasingly blurred.

Most people in the Netherlands experience this differently. To them, the Dutch state remains the primary actor in relations with the outside world. At the same time they are unsure what position the Netherlands occupies in today's world. Familiar reference points are disappearing and global power relations are shifting faster than most people could ever have imagined, partly as a result of the financial crisis. There is a growing tension between this feeling of being threatened by the outside world and the need to nurture the relationship with that same world. Domestic tensions, fading dividing lines between 'domestic' and 'foreign' and the opportunities and risks presented by a hybrid world create a need for a study of the changing conditions of foreign policy and of the possibilities and limitations these conditions offer. This report aims to contribute to a new orientation towards the outside world. It focuses on the question of how the Netherlands can develop a foreign policy strategy that reflects both the shifts in the global power balance and the radically altered nature of international relations. Our answer to this question is that foreign policy needs to be rethought. We underpin this by examining

first how the Netherlands can develop its own strategic foreign policy, then by explaining how this policy could be embedded in Europe as the dominant policy arena, and lastly by pointing out how such a strategic foreign policy could be put into practice.

From fragmentation to strategy

The agenda of topics in Dutch foreign policy has changed fundamentally. National policy themes have become global issues, the international agenda has expanded considerably and the fixed order of policy themes has disappeared. In addition, different policy areas have become interconnected and are no longer addressed exclusively in the interstate arena (geopolitics), but also in intra-state and non-state arenas (network world).

The Netherlands has traditionally aspired to play an active international role. The government's response to the turbulent expansion of the foreign policy agenda is in line with this aspiration: doing as much as possible with as many partners as possible. As illustrated by the traditional notion of the Netherlands as a 'model country' or by recent Dutch contributions to international peace missions, Dutch foreign policy is still firmly grounded in a deep-seated need to play a robust role in the international arena. This has produced a foreign policy that could be likened to a doughnut: a broad spectrum of aspirations, points of view and activities, without a comprehensive vision connecting the various components and allowing priorities and posteriorities to be determined.

Strategic foreign policy should go beyond these broad intentions that typify current Dutch foreign policy. This means choosing, setting priorities and seeking areas in which the Netherlands can make a difference. The first step towards achieving this is to be aware of and acknowledge that we live in a hybrid world. Only when the Dutch government realizes that its current foreign policy is insufficiently geared to this reality can a strategic foreign policy be formulated. The second step involves making choices and setting priorities across Dutch foreign policy as a whole. The actual choices made are political in nature, but a transparent deliberation framework would facilitate the decision-making process and increase the accountability of those choices – especially in the prevailing situation of financial austerity and cutbacks. Moreover, a prerequisite of a consistent policy is that the Dutch are still able to recognize themselves in their country's foreign policy.

Our deliberation framework is based on three questions:

1. What is important for the Netherlands?
2. Where do the interests of other actors lie and what are they doing to achieve them?

3. Where can the Netherlands make a difference? Based on the answers to these questions, foreign policy can be divided into three components. In the first place, foreign policy aims to defend the vital interests that are irrevocably linked to the survival of the Netherlands, its people and its territory. Because these vital interests are essential, there is no need to set priorities. This does not apply to the second component of foreign policy, defending non-vital interests. The practical reality of complex interdependence in international relations gives rise to a search for what this report calls extended national interests, i.e. more specific areas where Dutch interests and global issues coincide. That means searching for policy areas at the interface of global issues and national interests. The third and final component of foreign policy consists of 'niches': specific areas of policy where the Netherlands wishes to make its presence felt in the longer term. Developing these niches is highly relevant, as the marketplace of international relations has become far too crowded for the Netherlands to have a presence everywhere.

Europe as a dominant arena

Cooperation with other countries and organizations has been the cornerstone of the Dutch government's foreign policy for many decades. For the Netherlands, the EU is the predominant arena for that cooperation. If the Netherlands wishes to achieve its foreign policy goals, it must exert influence in this arena and excel here. With this in mind, it is helpful to approach the EU from two complementary perspectives. On the one hand, it can be seen as a political arena in which laws and regulations are developed that apply to all member states. On the other hand, the EU is a stepping stone to the world, a kind of power bloc that aims to exert its influence to defend fundamental European values and interests. Anyone considering the EU as the dominant arena will see it as the appropriate channel for the Netherlands to pursue its vital and extended national interests. The most effective strategy is to translate Dutch interests into European legislation or policy. The pressure to act as one has increased with the institutionalization of the European Council. For a successful member state this offers opportunities to connect and to advance its reputation. European legislation and regulation are created through the interaction between European institutions and various state and non-state actors. This process offers a perfect opportunity to make Dutch policy productive, offering interesting possibilities to influence European policies. Accepting Europe as the central political arena and as the stepping stone to international issues calls for strategy, making choices, planning an approach and mobilizing networks. This in turn requires the Dutch government to develop into an enabling state, i.e. a government that enables other parties to conduct activities that are in both their own interests and those of the Netherlands.

At the same time there is a certain built-in tension within the European construct between collective aspirations and joint action on the one hand and the need for individuality in the member states on the other. Bilateral policy-making and seeking to influence opinions in other member states therefore continue to be important instruments that can be used in parallel to efforts at the European level. The Netherlands can also play a constructive role in defining the European agenda in coalitions with and within influential neighbouring member states. In this respect the most productive approach is to allow ourselves to be guided by the following questions: what kind of Europe do we want to live in, and do we want to use our influence where possible to help shape it?

Directing and facilitating

A hybrid world, the EU, the proliferation of non-state actors on the international stage and the implementation of a successful niche policy demand new ways of working. Many attempts to restructure or 'decompartmentalize' foreign policy have been made before. A new way of working does not however require reorganization or new labels. It is above all a new approach, a new attitude that forms an integral part of the ambition to pursue a more strategic foreign policy. Three elements require further elaboration here: interdepartmental division of labour; better use of existing instruments; and switching between state and non-state arenas.

Foreign policy is no longer limited to a single ministry. All ministries have their own international policies for those areas in which they possess expertise and substantive competence. Especially within the EU it is now possible to speak of 'Dutch foreign policy' to only a very limited degree. In order to operate effectively in this predominant arena, it is in most member states the centre of the national government, embodied by the president or the prime minister, which controls European policy. More than ever before, Europe has become *Chefsache* since the entry into force of the Lisbon Treaty. It is however a sensitive matter to refer to this directly, despite it now becoming a reality in the Dutch practice. Yet the title 'Minister of General and European Affairs' would more accurately express the interconnected nature of national and European policy, as well as the personal responsibility of the prime minister for Europe.

In addition to this ministry, the Ministry of Foreign Affairs continues to play an important role in foreign policy; no longer as a coordinator, but above all as a line ministry responsible for themes such as the Dutch contribution to the new EU Council of Foreign Affairs, the integrated strategic direction of our external security (i.e. the comprehensive approach and its components of diplomacy, defence and development cooperation) and issues relating to the multilateral architecture.

To make strategic choices visible and engender strategic debates in parliament, we need instruments that are no longer grounded in the obsolete logic of ministries. First, we propose transferring overall foreign policy strategy from the Ministry of Foreign Affairs to the Cabinet. Second, strategic choices and the corresponding budgets should be set for each government term of office, with the Cabinet taking a decision each year about the specific activities to be undertaken in each budget year. This would offer a useful starting point for a debate with parliament about choices and priorities.

Implementing Dutch foreign policy strategically beyond the national borders also requires closer scrutiny of the broad network of Dutch embassies and consulates. Changes in the intensity and structure of the Dutch presence abroad should reflect strategic choices, not automatic reflexes. Alternatives that could be considered include new forms of representation abroad, cooperation with other countries to represent Dutch interests locally, and the deployment of officials from other line ministries. In addition, knowledge management should be made a priority at all levels of policy, to ensure that institutional learning is not only a responsibility, but is also part of the organizational culture. Analogous to the Diplopedia in the us, those who implement foreign policy should store their knowledge, experience and lessons learned in government-wide databases.

Lastly, in addition to a state-based focus, ministers, state secretaries and officials need to adopt an approach that links up to the network society populated not only by state actors, but also by non-state actors. Cooperation with ngo's, transnational corporations and sub-state actors calls for a way of working that is no longer based on directing, but on facilitating and connecting. With a sharp eye for Dutch interests beyond its territorial and immaterial borders, the Dutch government should connect actors and networks and facilitate the exchange of goods and ideas in such a way that this benefits the Netherlands and its people. To do so, the Netherlands should be at the centre of relevant networks: the more prominent its position in the network (a large number of contacts, the appreciation of other actors), the greater its capacity to acquire knowledge and services from other actors, to regulate the transmission of information and products within the network, and to determine agendas and frame debates. In summary, this report is a plea for the Dutch government to adopt a more critical approach to its strategic and substantive choices, to strive for excellence within the European arena and to become a facilitating partner in the world of non-governmental actors.

Position paper

Power shifts in a changing world order

The role of the European Union and the position of the Netherlands

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Power shifts

The world of today is said to be witness to two important global power shifts. The first power shift is the emergence (or return) of Asia in the international arena. Based on their impressive economic growth the Asian countries, in particular China and India, are lifting themselves onto the world stage – economically, politically and militarily. In their slipstream countries from other parts of the world – i.e. Brazil, Russia, South Africa, Indonesia, Turkey – emerge, thereby literally shifting the global balance of power. This shift is enhanced by an increasing demand for the world's natural resources, which strengthens the influence of resource-rich countries. With the rising economic power of these countries comes a stronger call for more influence in the global political arena. Together with the slower growth of Western economies, this 'rise of the rest' is leading in particular to an increasing pressure to adjust the current international financial and economic architecture to this new reality of international relations; an architecture which is still said to favour its traditional (Western) members.

The second challenge is not a shift of power upwards or sideways, but instead a diffusion of power. A diffusion away from the main stage and traditional players, in particular nation-states, towards a rising number of influential non-state actors and new theatres of power and influence. As a result of globalisation and technological developments, the instant communication across the globe in our, so-called, 'network world' enables a great variety of non-state actors to pursue their own interests and actions across borders. This is not only the case for multinational companies but refers also to tourists, journalists, pressure groups, celebrities, policy makers – actually everybody with a SIM. As a consequence, international public opinion has become a factor in its own right in international politics. When local problems can make global headlines in a matter of minutes, one's image is as important as one's material power.

This dual shift highlights a changing world order with a relative decline of the influence of Western countries and reinforces the urgency for a thorough debate on the role and position of the European Union and the Netherlands within this new world order.

A changing world order

On their own, these power shifts are already a major challenge to the international system. Together they bring about a considerable transformation of the international order, leaving state and non-state actors with the challenge to find new ways to live and work together within the international arena. While the two shifts are generally acknowledged, the outcome of the transformation is still uncertain. Most discussions tend to remain abstract and revolve around the likely effects of an emerging multipolar system, often viewed in combination with a network world, wherein power is less hierarchically ordered and in which an increasing number of actors wants to take part.

In this global system not only the number of actors is growing, but the international agenda is also turning into an increasingly complex blend of cross-bordering themes; e.g. climate change, financial regulation, pandemics, etc. As a result, the once popular distinctions in international relations between high (e.g. defence) and low (e.g. environment) politics as well as between the national and international domain are fading away. At the same time, the issues now dominating the international agenda underline the need for international cooperation. Global problems require global solutions. Yet, the traditional multilateral institutions for global governance, e.g. the United Nations or the World Bank, mainly founded shortly after the Second World War, are under pressure and seem unable to tackle these 21st century challenges.

The debate on the impact of these global power shifts and of the emerging international agenda has already started in the Netherlands. Studies have been published on the need to revise the strategic orientation of Dutch foreign policy (WRR 2010); on the potential economic impact on, and the opportunities of globalisation for the Dutch economy (SEC 2008); and on the issue of resource scarcity and its implications for the Netherlands and the EU (Scarcity and Transition 2009). It is time, however, to combine these different aspects for a thorough debate on the role and position of the EU and the Netherlands against the background of a changing international system.

Two themes stand out in this context: the global economic (im)balances and the scarcity of resources. Together these themes clearly show the complexity and scope of the shifts mentioned and the need for international cooperation, which make them an excellent starting-point for a discussion about the effects of the changing world order on the EU and the Netherlands.

Global economic (im)balances

The first theme concerns the shifting economic balance and the need for a revision of the financial and economic architecture. This becomes visible when one takes a closer look at the, on the one hand, massive reserves of China and the oil and gas producing countries, amassed e.g. in Sovereign Wealth Funds, and the debt of the US and the financial position of several EU member states, on the other. Dealing with the global economic balance is a complicated affair, not only because different countries have different interests and are affected differently, but also because countries are no longer – if they ever were – the only actors in this sector. The role of private and state-owned (investment) banks, hedge funds, etc. during the financial crisis is exemplary for the complexity of the international financial system of today.

Although there seems to be agreement on the need to revise the international financial and economic architecture, there is less consensus as to what specific changes should be brought about. Not only the differing interests and the growing role of (independent) non-state actors are a matter of concern in this regard. There also appears to be a shift away from the Western liberal faith in free markets towards new successful forms of state-induced capitalism as favoured e.g. by China and Russia. Whereas in a free market the government has limited control over the investment decisions of its companies, a government following state capitalism takes a more direct interest in the future of its economy. Hence an important issue is what the effect of the shift of power, and in particular the rise of state capitalism, will be on the world economic order, characterised as it has been for the past decades by liberalisation and globalisation. Will these new powers adjust, integrate or change the rules of the game?

Against this background the rise of the G20 as a new semi-institutional forum for global consultation and coordination is much debated, both in terms of its membership and with regard to its legitimacy, effectiveness and impact on well-established institutions, such as the IMF and World Bank. Questions are also posed as to the role of the EU in this newly emerging international financial and economic system. Will the EU loose out in the global economic rivalry between the US and China? Will it be marginalised as a result of a deepening crisis concerning the Euro, its ageing population and the costs of maintaining the welfare state, let alone its inability to reach quick and decisive decisions? Or will it be able to deal with these challenges, strengthen its competitiveness and claim a leading role on the international scene?

Security and scarcity of resources

The second theme concerns the potential security implications of the scarcity of natural resources. Besides fears for a physical depletion of these finite resources, the main cause for concern regarding a 'struggle' for natural resources relates to a lack of access to, and availability of these basic components, which are essential for every advanced and developing economy. Due to their importance, these resources and the issue of scarcity form an integral part of the overall political and economic relations between countries. In fact, one does not need to be a staunch observer to see that this theme is not only deeply entrenched in the wider geopolitical relations, but also contains an economic, environmental and security dimension. The economic dimension is evident in the market where the commodities are bought and sold, most noticeable in times of high price fluctuations with its effects on economic growth and stability. The environmental dimension of resource scarcity can be seen in the call for a decrease in the ecological footprint when using these resources. With an increasing world population, and thus an increasing demand for these scarce resources, this dimension is gaining critical importance.

And, lastly, there is the security dimension of scarcity, as these resources are seen as critical for the economic wellbeing of a country; a consideration which may seem to justify the acquisition of these resources by any means necessary. While the term 'a struggle for resources' is mainly used metaphorically – scarce resources have never acted as a cause for, but only as a multiplier behind (armed) conflict – it is said that at present the world is witness to a rise of 'resource nationalism'. Increasingly resource-rich countries feel wronged and insufficiently compensated and are tempted to impose tariffs and other restrictions on the export of their energy and minerals; hence the nationalisation of resources. While this tension between resource-rich and resource-poor countries is 'easily' solved by opening up markets, it so happens that this trend is aggravated by the two different perspectives on the organization of a successful economy. The Western free market companies find themselves more and more dealing and in competition with states that favour a state-led economic approach. It is a matter of debate whether or not these states are more successful in procuring the necessary funds and/or resources to generate long-term economic growth as opposed to those states favouring a free-market approach. For now, it seems they do.

This complexity, further increased by the fact that the different natural resources, such as food, water, oil, phosphate or rare earth metals, are intimately linked with one another, makes it hard to come up with 'easy' fixes. In essence the solution seems clear: more resource efficiency and a transition towards a more sustainable economy. Yet, this again requires international

cooperation. And while all countries do agree to some extent on what the world's problems are, their views on how to solve these problems remain very divergent. For example, which organisation should take the lead in this discussion? The UN, the WTO, the FAO or a new organisation? On which scale should these discussions and solutions take place: local, regional, global? And what role will the resource-poor European Union play? Will it become a victim of a global 'struggle' for resources? Or will it lead the way in the transition to a more sustainable world? And if so, how will this transition relate to the economic position and competitiveness of the EU and the Netherlands in the meantime?

The Netherlands

As for other countries, the position and role of the Netherlands within this changing world order is bound to change. With 70% of its earnings coming from international transactions (in particular trade and transfer), the Netherlands is highly dependent on a stable and open international system. As it happens, the same factors that mark the shifts in the international balance of power and the transition to a more diffused and complex international system, both in terms of actors and issues, are also decreasing the traditional capacities of the Netherlands to influence the international system in accordance with its own interests. This becomes even more obvious when changes within the Netherlands itself are taken into account: i.e. its decreasing financial resources to support an active international policy and the shift in Dutch society towards a more restrained and inward-looking international policy orientation.

At the same time, the network world offers multiple opportunities, in terms of instant communication, information sharing and the legitimacy and knowledge of non-state actors. Especially for a country like the Netherlands, with its long history of active international participation on almost every theme imaginable and in almost every organisation possible, the current developments might not be as threatening as is sometimes assumed. That said, these factors will have consequences for the way in which the Netherlands and its citizens and companies act in the international arena and try to promote their interests. In other words, what options does the Netherlands have to pursue its interests in the rapidly changing international system of today?

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Footnotes

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Colophon

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Conference
Power shifts in a changing world order

*The role of the European Union
and the position of the Netherlands*

The Hague, 4 February 2011