

Andreas Dombret: The merits of and challenges for global cooperation

Speech by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at a reception to celebrate the 30th anniversary of the Bundesbank's Representative Office, Tokyo, 22 May 2017.

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1. Introduction

Governor Kuroda
Deputy Governor Nakaso
Ladies and gentlemen

It is wonderful to be back in Tokyo, this extraordinary city. I am happy to see so many of familiar faces and so many important stakeholders here with us today.

Tonight we are celebrating the 30th anniversary of the Bundesbank's Representative Office in Tokyo. Actually, we are ten days early: the Representative Office started its work on 1 June 1987. But what are ten days among friends?

To mark the occasion, I would like to say a few words on the merits of global cooperation.

2. The merits of cooperation

Nowadays, international cooperation is under attack from nationalist, populist movements. Their claim: We are better off on our own. And I must say that –from an economic point of view – some of the frustration is rational, since the advanced economies have been undergoing a substantial economic transformation due to trade and technological change, which always has both winners and losers.

Yet, I cannot agree with the conclusion that we should heavily limit or even withdraw from international trade and global cooperation.

Why, you may ask. The answer is simple: Evolution. One of the key insights of the theory of evolution is "the survival of the fittest". Many people conclude from this that "competition" is what makes our species so successful. And while that is not wrong, it falls short of explaining why the human species is one of the most successful on earth – meaning that it has spread over most regions of the planet and massively increased in number; because it is cooperation and the division of labour which make our species so successful.

Evolutionary biologists have shown that there are only a few species – between ten and twenty, depending on the exact definition – on the planet that are capable of cooperating in a complex manner. And these eusocial species, as they are labelled, are the most successful species on the planet. The fittest to survive will be those who can compete *and* cooperate.

In other words: while competition within a species is important for progress, cooperation may be even more important. This is actually programmed into our DNA.

Let me explain by giving an example. In two scientific studies, capuchin monkeys¹ and chimpanzees² proved that primates are programmed to be fair and place a high value on social contracts. In these studies, two primates were each offered a snack in return for carrying out a simple task. The two animals would get either a tasty grape or a less tasty piece of vegetable. All

of the animals preferred the grapes, but they also liked the vegetables – they would eat the latter, as long as both primates got the piece of vegetable. You can probably see where this is going: once one of the two animals got a grape and the other a vegetable, the latter would refuse to eat his snack, even though he had eaten it when *both* got the vegetable. To express their feeling that this was unfair, several of the disadvantaged primates actually threw the pieces of vegetable at the researchers!

The study with chimpanzees revealed a further very interesting finding: if one chimpanzee got a grape and saw the other receiving the vegetable, the one with the grape would in most cases also refuse to eat the tasty grape. What a conscience! Primates clearly seem to be programmed to cooperate.

But why then the recent tide of populism and nationalism, you may ask. Well, it may be because redistributive and restructuring tendencies in developed economies, globalisation and technological change in particular – while having created huge welfare gains for our societies – have also been penalising significant segments of our societies. This has created political tension and conflict over time – the Great Recession was a tipping point at which the frustration grew. This has led people to be frustrated with globalisation and free markets. But we should be careful not to throw out the baby with the bathwater: trade and globalisation have brought us more gains than losses. So rather than resorting to protectionism, we should improve international cooperation.

3. Focused global cooperation

Yet, when talking about global market liberalisation and economic cooperation, we hear extreme, ideologically motivated solutions all too often: for instance, populist nationalism promises that everything will get better if we build new walls between our societies. At the other extreme are those who favour hyper-globalisation, that is, no borders to economic activity at all and full harmonisation.

History has proven that both solutions are mere ideologies. The theories of both sides have proven to be unrealistic and, to a considerable extent, plain wrong.

So what form of international economic coordination is actually viable?

To answer that – without giving a long lecture – we can borrow a simple yet powerful analysis: the globalisation trilemma. Dani Rodrik, the well-known economist from Harvard University, argues that we face the following trilemma: we cannot have all three things at once: (a) full, global market liberalisation, (b) national sovereignty, and (c) democracy. We must choose two of these three, and give one up.³

If we choose full economic globalisation, without any obstacles to free trade, then we must give up either our national sovereignty or our democratic ability to oppose global rules. For example, if we give up democracy, an autocratic ruler could decree that everyone has to accept the global rules. If we give up national sovereignty, we could have a global democracy. I think it is fair to say that we would rather not give up democracy or national sovereignty.

What remains is to limit market liberalisation where our societies deem this necessary. This is not a convenient truth, because it means we have to look for answers in less clear waters: we need to find those areas where global cooperation and harmonisation is sensible, and how far it can go. This strategy must then go hand in hand with more national autonomy for finding domestic solutions to national challenges.

Given these constraints, a realistic middle ground would be focused global cooperation:

continuing to cooperate and to harmonise regulations where possible – but also focusing and improving our efforts. Focused global cooperation would also offer greater scope for solutions that respect the legitimate interests of countries wanting to run their economies independently.

But let's not throw vegetables at each other – let's share grapes.

4. The value of personal ties

A few years down the road, I very much hope that we will be living in a world where multilateral cooperation has been enhanced to benefit all segments of society. Close friendships like those between Japan and Germany and the multilateral approach would still form the bedrock of international cooperation.

The Bundesbank's office in Tokyo furthers that cause. Our team has done an excellent job over the past 30 years by playing a vital role in the exchange between the Bundesbank and the Bank of Japan as well as the Japanese Government. And that is crucial for cooperation: while it may be technically possible to cooperate without ever meeting each other personally, close personal ties and an understanding of where the other side is coming from are more important than ever – especially during times of heated debate.

I want to thank all our colleagues for their dedicated and excellent work – and that includes not only the current staff but all those who have been serving here since 1987. And especially I want to thank Ms. Gudrun Moede for her excellent job in running the office and preparing today's event.

At the same time, we could not be more thankful for the outstanding partnership with the Bank of Japan. From the very first day, our team felt more than welcome and I am confident that this will continue into the future.

Governor Kuroda, I would like to thank you and your team in the name of the Bundesbank and our Tokyo team: it has been and continues to be a privilege to work side by side with you and the team of the Bank of Japan. We are deeply thankful for the warm welcome, for your support and for your honest, friendly, and effective cooperation.

5. Conclusion

Ladies and gentlemen

Global economic cooperation has helped us to build a more prosperous society. However, it does have side effects. Only by reducing and managing these side effects can we foster global cooperation in the long term.

Only if we manage to strengthen the cooperative principle can we remain successful. Focused global cooperation promises a way forward. We should all put our minds together to decide how this can be best achieved.

Continued close cooperation between our nations will serve us well. And our office here in Tokyo will continue to further that cause.

Thank you for your attention.

¹ Brosnan, S. F. & De Waal, F. B. (2003). Monkeys reject unequal pay. *Nature*, 425(6955): 297–299.

² Brosnan, S. F. et al (2010). Mechanisms underlying responses to inequitable outcomes in chimpanzees, Pan

troglobytes. *Animal Behaviour*, 79(6): 1229–1237.

- 3 Rodrik, D. (2000). How far will international economic integration go? *Journal of Economic Perspectives*, 14(1): 177–186.