



STOCKHOLM CHAMBER OF COMMERCE

A MODERN TRADE POLICY FOR STOCKHOLM

The Transatlantic Trade and Investment Partnership (TTIP), the Global City, and the Promise of a Twenty-first Century Trade Agreement



Stockholm Chamber of Commerce

Introduction

Stockholm is a global city. Its economy is intertwined with the world economy through trade, investment and cross-border movement of people. And the global nature of its economy has been recognized in several international studies and rankings that invariably put Stockholm in the group of the 20-30 most global cities in the world. Such rankings ride on the growing tide of interest for cities – and competition between cities. In the past twenty years cities have again emerged as central parts of the economic geography. In several ways, cities are yet again more important entities than nation states for the quest of understanding the profile of production, trade, investment and migration in the modern economy. If global cities, and the type of economy they represent, would be eradicated, there would not be much world trade and globalisation.



The industrial revolution, and the economic and sociological structure that followed in the post-war era, often made cities redundant economic concepts. Industrial degeneration later came to weigh down the economic role of many cities, and the quality of life they offered, leading to high city unemployment and general stagnation in the Western world. This did not really change until the entry of globalisation in economic life. As described by urban sociologist Jane Jacobs, cities have an intimate relation with globalisation, or with the expansion of an economic hemisphere based on the principles of Adam Smith.¹ Cities are vectors for structural economic change, they create or intermediate larger changes in production and consumption structures. Many of the changes are imported from abroad – and those changes that are home-grown tend to find their ways to other cities and countries.

¹ Jane Jacobs, 1984, *Cities and the Wealth of Nations: Principles of Economic Life*. New York: Penguin

And a global city offers a larger region – a whole nation – an interface with the rest of the world through its economic life. Through its connections to the outside world, global cities fuse an extended economy. In later years, they have also become centres of innovation – in product as well as in process innovation. Cities attract capital and people with the capacity to affect innovative change.² In short, they give access to economic functions that are necessary in modern economic life. Without access to a global city, many countries would rapidly shrink their economic size.

Consequently, the inherent view of a global city towards international economic policy is one of openness. A global city like Stockholm lives and breathes on openness to trade, investment and the movement of people. This does not necessarily single Stockholm out from the rest of Sweden; in fact, Sweden generally tends to favour openness and a good part of its free-trade tradition emerged in non-city regions that favoured freer rules for import and export in order to access food and necessary input goods or grow their regional export. Still, Stockholm's integration with the world economy is different in both quantitative and qualitative dimensions.

First, its interface of actual integration covers more forms or modes of cross-border flows. In this way, its relation to the outside world is “thicker”. For its capacity to grow Stockholm needs to have a good access to foreign people and capital as well as to manufactured goods. The most important raw material for production and export in Stockholm is human capital. Often, the role of a global city in an extended economy is to substitute direct import.

Second, Stockholm is in many ways a headquarter-oriented economy – an economy where Swedish multinational firms locate their global headquarters, or where foreign multinational firms locate their regional headquarters to serve a larger economy like Sweden or the Nordic region. Stockholm hosts more global headquarters for multinationals than Denmark, Finland and Norway together. In fact, a recent study has suggested Stockholm to be the eight most headquarter-intense city in the world.³ A headquarter-oriented economy requires access to services that are different from other types of regional economies. It needs a larger vegetation of service companies that are globally oriented and that freely can move in and out of a country without burdensome restrictions. Headquarters, and their suppliers, need to have access to people and capital that are globally competitive.

Third, Stockholm is today an innovation-based economy. Most of its growing sectors in data-driven services or environmental technologies require access to foreign markets that is somewhat different from market access preferences in other regions. The big obstacles for most of the innovation-based firms are not traditional bread-and-butter trade restrictions (e.g. tariffs or quotas) but barriers to trade and investment that goes deeper into the regulatory fibre of a country. Unsurprisingly, while successive rounds of global trade liberalisation in the past have freed up trade and investment in many sectors, the ‘unfinished business’ typically represent barriers facing these types of innovative firms. Worryingly, many of the new barriers erected in the past years

² Edward Glaeser, 2011, *Triumph of the City*. Oxford: Macmillan

³ Stockholms Handelskammare, 2013, *Huvudkontorens ekosystem: Internationella företag och avancerade tjänster i huvudstadsregionen – en kartläggning*. Stockholms Handelskammare Rapport 2013:6.

especially hit innovative sectors, not least new barriers in the field of data and telecommunication.

Cities do not have trade policies. Trade policy is usually addressed at national or federal levels. Yet cities have special needs and demands for their capacity to flourish – and many of them clearly concerns the design of global trade or regulatory policy. This is particularly true of global cities – cities that function as the main artery for a larger region’s integration with the world economy.

In this paper, the intention is to present a list of priorities for Stockholm in what is today one of the most exciting forums for trade negotiations – the Transatlantic Trade and Investment Partnership (TTIP). The Stockholm Chamber of Commerce supports freer trade – and it should not come as a surprise that, like many other business organisations, the Chamber would have preferred much greater multilateral advancements in the Doha Round of trade liberalisation in the World Trade Organisation. For a variety of reasons, WTO members have not been able to deliver on the promise set out in Doha in 2001, when the Round started. And the attention of trade negotiators have therefore turned to opportunities to open up for new trade in bilateral or regional formats.

TTIP is a good initiative. It holds the capacity to free up bilateral trade and unleash economic growth in both the European and the American economy. The potential gains from TTIP are significantly larger than the potential gains from other Free Trade Agreements that could be envisaged.⁴ The National Board of Trade in Sweden has estimated that TTIP could expand Sweden’s trade with the US by 30 percent, if non-tariff barriers are liberalised comprehensively.⁵ The study concludes that the biggest gains for Sweden would come from opening up its sector for business services – a sector with high concentration of output in Stockholm.

Yet what really enthuses many observers is the capacity of TTIP to usher trade and regulatory policy into the twenty-first century by addressing obstacles to economic integration that curtails the capacity of many new or new-ish sectors to grow. And this is the key promise of TTIP – repeated time and again by political leaders in both Europe and the United States. The merits of TTIP should not be judged on its success (or failure) to address traditional trade issues, but the extent to which it blazes a new trail for trade policy into thorny regulations and behind-the-border barriers that are the main obstacles to commercial integration in the modern economy.

Such ambitions rhyme with the economic structure of Stockholm and many other global cities in the world. The capacity of Stockholm to thicken its and Sweden’s integration with the world economy is predominantly about the liberalisation of an economy that happens internally, not at the border.

⁴ For an estimate on potential gains, see Joseph Francois et. al., 2013, *Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment*. London: Center for Economic Policy Research. The study can be accessed at http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf

⁵ National Board of Trade, 2012, *Potential Effects from an EU-US Free Trade Agreement: Sweden in Focus*. Stockholm: National Board of Trade. The study can be accessed at <http://www.kommers.se/Documents/dokumentarkiv/publikationer/2012/rapporter/Potential-effects-from-an-EU-US%20-free-trade-agreement.pdf>



2. What should be 'Stockholm Priorities' in Modern Trade Agreements?

The Transatlantic Trade and Investment Partnership is premised on the idea that it can substantially affect the design of twenty-first century trade policy. That is a bold idea.

While past trade agreements have successfully addressed issues of importance to the last century – like trade in consumer or industrial goods – trade policy in recent years has all too often stumbled on what looks like nineteenth century issues, like protection of agricultural or textile sectors. Yet the new orientation is necessary for trade policy to stay relevant in the modern economy. Much of the potential growth from trade in the next decades is represented by sectors that have not been affected much by past trade agreements – such as many service sectors – or by new trade opportunities that can help to improve the productive capacities of older sectors, like faster diffusion of new technology. The ambition also fits with the needs and demands of a global city like Stockholm.

Three areas of trade policy are of critical importance to a global, headquarter-oriented, and innovative city like Stockholm.

FREE TRADE IN DATA

Data and cross-border flows in data are powering the world economy. There is virtually no transaction in the world today that is not based on the presumption of data flowing in and out of countries. Obviously, cross-border portability of data is a necessity for data services like Gmail or Facebook. They are also at the heart of cloud-based services. But the important point is that restrictions on the free flow of data affects all types of transactions and all types of sectors, not just the suppliers of such services.

Worryingly, a growing trend across the world is that governments employ regulations with the intention or the effect to re-territorialise data. This means that governments curtail the portability of data across countries, and require companies to locate and store data within their own jurisdictions. Such restrictions come in different forms. Some governments have introduced cybersecurity laws or restrictions that affect data portability. Other governments have rewritten rules for e-commerce in a way that

effectively means that local establishment is necessary to serve a market, affecting especially small- and medium-sized enterprises that cannot afford to establish themselves in all markets where they would like to sell their products. Generally, governments are increasingly involved in changing data privacy regulations in ways that have consequences for the free flow of data.

Regardless of the intention, the problem today is that protectionist sentiments often corrupt legitimate regulatory objectives. It happens all too often that cybersecurity regulations, to take one example, favour national suppliers at the expense of foreign competitors, regardless of the actual degree of security offered in a country or by a supplier. Furthermore, even seemingly innocent or marginal regulations in this sphere can have disproportionate consequences for trade and the world economy. The data driven economy is built on global value chains and restrictions that erode this structure will immediately be felt in the real economy of producers and consumers trying to make business.

Free flow of data is an important issue in transatlantic cooperation. *First*, many of the companies that get affected by new regulations across the world are from Europe and America. Consequently, political leaders in the EU and the US should have strong interests in taking leadership to fashion new policies and standards for cross-border data flows that help rather than hurt their companies to access foreign markets.

Second, there is an emerging cooperation to this effect that started with the EU and the US agreeing in 2011 on ten principles for ICT services – principles they intend to get accepted in others parts of the world.⁶ Unsurprisingly, the free flow of information and rules against requirements to use local infrastructure for ICT services, to name two examples, are key principles in that agreement. What is important now is that the EU and the US incorporate these principles in an actual trade agreement – an agreement based on rules and disciplines that effectively can police diversions from the principles. If the EU and the US want other countries to follow their example, they need show their determination and give the principles real legal status.

Third, and important, some of the most damaging disruptions for the free flow of data could come from a new EU data protection regulation that is currently working its way through European Union institutions. It is difficult to exaggerate the importance for Europe to change the policies that have been proposed by the European Commission and the majority of the European Parliament. Not only would their proposals seriously risk impeding data portability between the EU and the US (and, of course, other countries). It would also harm Europe's own economy by forcing companies to pay higher costs for the services they usually obtain from foreign companies.

A recent study of the original proposal from the European Commission suggested that the harm to Europe from a fairly moderate version of the regulation would shave off

⁶ Information about these principles can be accessed at http://europa.eu/rapid/press-release_IP-11-402_en.htm

0.4-0.7 percent from the EU Gross Domestic Product (GDP).⁷ If current threats of rules that would force greater re-territorialisation of data would materialise, the harm would be far higher, going up to 0.8-1.3 percent of GDP. The proposed data-protection regulation from the European Commission risks eradicating the potential gains in GDP growth from TTIP.



Unsurprisingly, the recent revelations of PRISM and accusations of large-scale US snooping of European communication have reinforced those forces in Europe that prefer the most intrusive forms of privacy regulation, regardless of its costs or effects on actual security and integrity. Yet the idea that national security activities by governments could be addressed by a commercial regulation on data privacy is difficult to understand. Much as it is important to improve personal integrity and subject government data surveillance to better constitutional standards, the EU proposal (or any other regulation intended to regulate commercial practices in handling data) aims to achieve something else and have no real consequences for government activities.

The free flow of data is central to Stockholm's ability to grow through integration with other markets. Stockholm has a growing and vibrant community of data and ICT entrepreneurs – in sectors from online and smart payments to computer games – that are small and not resourceful enough to establish local presence in other markets in order to avoid costs related to crossing borders with data. Stockholm is also the home to the world's largest supplier of telecommunication infrastructure and services, Ericsson, that recently announced a large data and research investment in Stockholm. Ericsson is in the process of building a new ICT centre to develop new products in areas like next-generation cloud services. Its capacity to generate output and employment in Stockholm – and other places – from such investments is affected by the freedom of its customers to move data across borders.

Equally important, regulations that restrict the free flow of data hurt the larger economy of Stockholm. Few regions in the world thrive so much on modern ICT and Internet technology and services as Stockholm. Its intensity of high-tech production has been acknowledged in several studies and rankings of city economies. Last year, for example, Stockholm was ranked as the second most ICT savvy city in the world.⁸ It is one particular advantage that is known to attract people and investors to establish businesses in Stockholm.

⁷ ECIPE and the U.S. Chamber of Commerce, 2013, *The Importance of Getting Data Protection Right: Protecting Privacy, Transmitting Data, Moving Commerce*. The study can be accessed at http://www.uschamber.com/sites/default/files/reports/020508_EconomicImportance_Final_Revised_lr.pdf

⁸ Ericsson, 2012, *Networked Society City Index. Part III: Triple Bottom Line Benefits for City Business*. The study can be accessed at <http://www.ericsson.com/res/docs/2012/networked-society-city-index-report-part-3.pdf>

Consequently, all matters related to free flow of data is central to Stockholm. It is important that the EU and the US find ways to improve on current conditions for data portability. Admittedly, many of the data regulations that cause frictions in cross-border data flows are not traditionally part of trade negotiations. Yet it is crucial for the course of – and case for – TTIP that real barriers to commercial integration are tackled, whether in data or other sectors. It is hard to imagine a scenario where TTIP would mature into a good agreement if, at the same time, there are regulatory developments that severely erode the capacity for real trade and cross-border commerce. Furthermore, if TTIP is to deliver on its promise of ushering trade policy into the twenty-first century, the EU and the US cannot resign from the task of freeing up cross-border data flows bilaterally – and blaze a trail for similar improvements in relations with other economies.

FREE TRADE IN SERVICES

A global city is defined by its capacity to transform an economy. This particular capacity is often represented by various forms of services: services that help to improve the productive capacity in other sectors. This is not a novel observation – but it is seldom acknowledged, let alone appreciated, in the public debate. A company that wants to reorient towards foreign sales need access to trade finance, usually intermediated in the private financial system, and law firms that can help companies to protect sales. A company that wants to grow quickly, or that needs to go through a period of restructuring, is in demand of private equity or the services offered by management consultancies. Unsurprisingly, big multinational headquarters purchase huge amount of outside business services – and these suppliers need to have global capacity and draw on top international expertise.

Business services are, however, only one aspect of Stockholm's growing services sector. It houses several other suppliers of services that are increasingly globalised. The architectural sector is one example; management of public utilities like water or the metro is another. Generally, services within transport and logistics have increased their importance as the Stockholm economy has become increasingly globalised and as Stockholm increasingly has intermediated the globalisation of other regions. Furthermore, after Sweden's early reforms to open up welfare services to private suppliers, Stockholm now has a growing community of companies that operate in health-care of educational services.

The common perception that services generally are free and have been in the forefront of efforts to liberalise trade in the past decades is wrong. In fact, far fewer trade reforms have emerged in the services sector than in other sectors. No multilateral agreement has de facto generated new opportunities to trade services; the General Agreement on Trade in Services (GATS) emerged only at the end of the Uruguay Round, which closed in 1994, and since then there has hardly been any multilateral negotiations at all related to services.

Consequently, few countries have bound market openness in services in a way that extends beyond actual market realities during the time of the Uruguay Round. And much as changed since then. A key service in today's economy like search engines had yet to be invented. Similarly, cloud services – one of the fastest growing service

sectors today – were unknown to the world. The ICT revolution had yet to begin.

Consequently, many barriers to cross-border integration in services remain unaddressed. And actual liberalisation of trade in services going beyond the commitments countries have made in trade agreements are subject to uncertainty: trading rights can be withdrawn without violating an agreement. A vast body of research has concluded that there are huge potential benefits from liberalising trade in services.

Such a strategy should be at the heart of TTIP. Both Europe and America are big producers of tradable cross-border services. There are huge potential gains to be reaped – both by freeing up bilateral trade in services and by using TTIP as a platform to push for international liberalisation of trade in services, e.g. in the new initiative to establish a plurilateral Trade in Services Agreement (TISA).

There are many remaining barriers that a TTIP agreement should address. In some sectors, the situation has deteriorated in the past years. In several new financial regulations established since 2008, for example, discriminatory rules in the financial services sector have sneaked in. Such rules do not have positive prudential consequences; nor are they intended improve systemic financial stability. Yet they alter competitive relations in favour of domestic operators.

Transport services from cabotage over port management to taxi app services should be opened up. Telecommunication services in the US are restricted by limitations on investing in companies with carriers radio license. Similarly, several EU countries have failed to open up their telecom markets. A key logistic service like postal service is generally closed – both in the EU and the US. Professional services remain very restricted across Europe – and these restrictions have clearly curtailed their growth potential. Moreover, recreational services like hotel should be opened up in order to restrict efforts to block new services from companies like airbnb, supplier of accommodation services. There is an ongoing educational revolution going on through the Internet, but many such services – even innocent things like online lectures – have been met with regulatory resistance and been found to have an uneasy relation with established structures of providing educational services. Policies on higher education should be opened up to allow for more foreign establishments. The same is true for healthcare services, where countries have opened them up to private suppliers there should be greater efforts to reduce restrictions against foreign suppliers. This list could be made much longer. And it only deals with areas that are ripe for liberalisation. There should also be a huge agenda for ensuring regulatory compatibility in the services sector.

OPENNESS IN PUBLIC PROCUREMENT

Public procurement is one of the largest markets in the world. Governments and authorities across the world every year purchase goods and services for trillions of euros. Only the EU offers annually about 350 billion euro in public procurement contracts, according to figures from the European Commission. Yet trade in such contracts is so infrequent that it hardly registers. The European Commission has conservatively esti-

mated that the EU loses around 12 billion euro annually in exports due to lack of reciprocity in public procurement.⁹

The European Union has made a big case for demanding greater access to the US public procurement market. This is a good ambition. The US market, like other markets, does not have much trade represented in its public procurement. There are also US states and municipal authorities that are not subject to the rules against discrimination in public procurement in the Government Procurement Agreement in the WTO. Furthermore, the Buy America provisions in the 2009 American Recovery and Reinvestment Act ushered in some new rules for determining the eligibility of a foreign supplier of goods and services for certain classes of public contracts.

Yet an equally good case can be made for why the European Union needs to be more open to foreign suppliers in public procurement. The EU has exaggerated its openness – and, misguidedly, threatened to close access to suppliers from countries that do not offer reciprocal openness. To support its view, the EU claims that its public import represent between 7 and 10 percent of public demand (the exact figure depends on the methodology used to calculate the import penetration in public procurement) while the equivalent figure for the US is only 4.6 percent. The problem in this approach is that the EU includes internal trade within the EU while it does not include trade between states in the US. If a comparison is made between the same types of trade in public contracts, excluding intra-EU trade, it is more likely that the EU has a smaller share of trade in its public procurement than the US.¹⁰

One can debate the exact figures, but the important point is that both sides need to open up their public procurement markets. This would benefit Stockholm – both in terms of accessing better and cheaper services from abroad, and offering Stockholm firms better access to foreign markets. Stockholm has a huge community of companies that sell to public procurers. Producers of telecom equipment and services are one category – inarguably a big one in Stockholm. Innovators and suppliers of environmental technology are another group; public authorities are often their customers. Stockholm host headquarters for big companies providing city and construction infrastructure (e.g. Sweco) or security services (e.g. Securitas) to public entities. Stockholm is a cluster for companies involved in creating smart and sustainable cities.

⁹ European Commission, 2012, Proposal for a Regulation of the European Parliament and the Council on the access of third-country goods and services to the Union's internal market in public procurement and procedures supporting negotiations on access of Union goods and services to the public procurement markets of third countries. Commission (2012) 124 final. Accessed at http://trade.ec.europa.eu/doclib/docs/2012/march/tradoc_149243.pdf

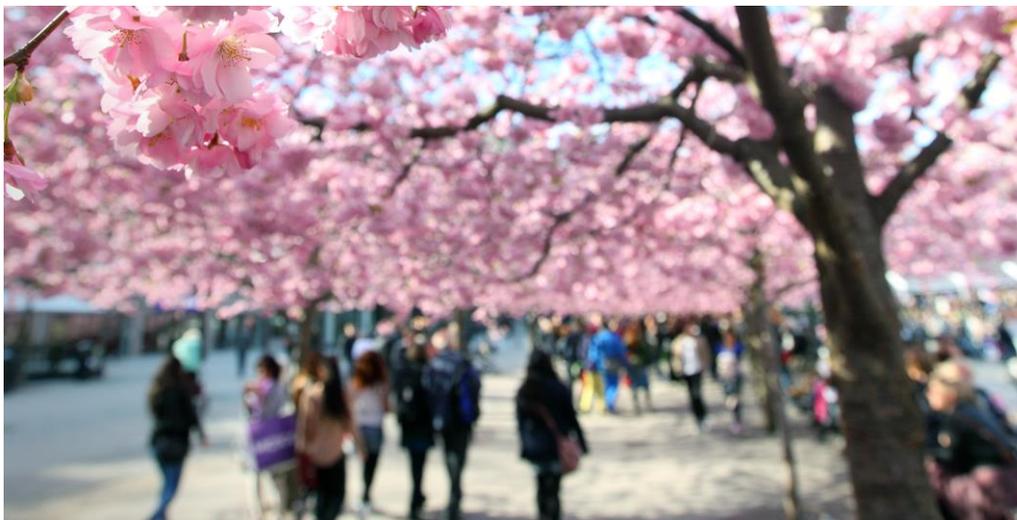
¹⁰ Patrick Messerlin & Sébastien Mirodout, 2012, *EU Public Procurement Markets: How Open are They?* GEM Policy Brief, August 10, 2012, accessed at http://www.ecipe.org/media/publication_pdfs/Messerlin-Mirodout_EU_public_procurement072012.pdf

4. Concluding comments

Stockholm is a global city that thrives on open access and innovation. It shares with many other regions a belief in trade openness in all sectors – and Stockholm indeed stands to benefit when there is liberalisation of trade in sectors where there is no immediate production in the Stockholm region. Yet the composition of Stockholm's economy also suggests that there are specific areas where there are big gains to be made for a global city like Stockholm if trade agreements can deliver new market openness and rules against protectionism and discrimination.

This study has suggested three areas to be of particular importance for the TTIP agreement: the free flow of data, free trade in services, and an significant opening up of public procurement. There are other areas, too, that would benefit Stockholm, but these three areas have the capacity to reinforce the role of Stockholm as a global, headquarter-oriented, and innovative economy.

Leaders of the EU and the US have given the promise that TTIP will be a twenty-first century trade agreement that opens up for trade in areas that have been locked for previous efforts to liberalise trade. It is important that leaders will be held accountable on that promise, because such an agreement would undoubtedly deliver significant gains to Stockholm and its growing community of entrepreneurs and investors.





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