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Private Inequity?

Financial Market Innovation

- *Moderator*: **John Thornhill**, Editor, European Edition, *Financial Times*, United Kingdom
- **Adrian Blundell-Wignall**, Deputy Director, Financial and Enterprise Affairs, OECD
- **Francisco González Rodríguez**, Chairman and CEO, BBVA, Spain
- **Marc Litzler**, Deputy CEO, Calyon, France
- **John Monks**: General Secretary, European Trade Union Confederation

John Thornhill introduced this session reminding us that one of the most dangerous phrases in the financial industry is "this time it is different." But the FT's European editor went on to highlight that something fundamental does appear to have changed the nature of the financial markets in recent years. We are supposed to believe that innovation in financial markets will flatten the cycles, increase productivity and hence create jobs and profitability, he suggests, yet the general perception of finance is quite the opposite. Why has the gap between theory and perception become so wide?

Marc Litzler made a strong defence of the positive role of innovative financial instruments in the world today, but acknowledged concerns about whether they generate true value or just large commissions for some financial players. The deputy CEO of Calyon retraced the story of banking and described how the industry has moved from being a commercial banking system to an investment banking system via the creation of corporate market activities, and the asset management industry and mutual funds. Banks are now the meeting point between investment needs and financial needs: indeed, banks can now finance almost anything. He insisted on the fact that a bank has to be flexible and responsive to the evolution of the market in order to ensure its successful development. They should diversify their activities in terms of geographical location and develop new products such as "mortality table derivatives". Mr Litzer acknowledged that we live in a world of huge imbalances, and that the promises have been sold to pensioners that cannot be met: financial innovation cannot solve these issues, but it holds the key to future development, he argues.

John Monks recalled the boring image of the financial industry in the 1960s, and how it has since been transformed into one of the most dynamic and profitable economic sectors. The scale of the change is particularly well illustrated in the UK, where financial services now account for 14% of total employment, compared with just 16% for industry. While acknowledging the positive aspects of this development, particularly in terms of employment and high salaries, the ETUC's general secretary expresses deep reserves about financial innovations: "it is not easy to attract capital for risky long-term projects…risk is simply being pushed onto others…innovation in the financial services industry often seems synonymous with high-yield, tax efficient funds based in the West Indies." He is highly critical of the culture of private equity funds, which demand a return on capital of at least 15%, and sometimes as high as 27%: "these returns are often achieved by financial engineering, not creating new products and services…I think the model is dangerous, it is not releasing value but wasting it". By warning that "if we can't do it here we can go somewhere else", private equity creates distortions in the economy. For Mr Monks, "there is a real worry that these innovations are a risk to responsible business."

Francisco González Rodríguez provided a graphic description of both the benefits and the potential dangers of financial innovation. On the one hand, there are now 200,000 financial institutions in the world serving 900 millions customers, which is still a relatively small proportion of the world's population. It is now a huge and expensive system, but financial innovations–like derivatives, internet and mobile phone banking–are helping to create a new model that will see more people entering the banking system. By allowing the poorest to access financial support, innovation will help tackle the widening social gap.

On the other hand, and to illustrate the dangers of financial innovation, BBVA's chief compares the financial system to a constantly growing "spider's web" of which we know too little: it is elastic, thanks to the growing use of financial derivatives, and it can therefore absorb shocks, but for how long? "It is risky, but where is the systematic risk hidden?... What happens if there is a major shock? We simply don't know… deregulation has set risk takers free but has clouded the vision of the financial world: there is not enough transparency, there is not enough information and there is a widening gap between the real economy and the financial indexes".

Still, Mr González Rodríguez maintains "it is too late to go back". As there is no world regulator and central banks have been unable to set up a common policy on the matter, innovation must play a key role in preparing for the future. "The problem is that most of these new derivatives are based on models that have not been tested in the real world…If something goes wrong, we will see a lot of blood on the street, no doubt." Some institutions are selling products that are all the more appealing in terms of profitability as they are unclear about the risk they take "Everybody is dancing, but if the music stops nobody knows what is going to happen."

Adrian Blundell-Wignall warned that the main risk to the financial system lies not in private equity and hedge funds, but in the colossal liquidity bubble originating in China. Against a backdrop of rapid financial innovation, emerging countries like China, by subsidising the price of energy and holding down its currency rate, are flooding the US market with cheap products that keep inflation at an artificially low level and generate a huge current account surplus that is at the origin of historically low interest rates. Chinese policies are causing a "major distortion" that is spreading throughout the financial system and represents a real threat to the world economy because such unbalances cannot last forever. Unlike Mr Monks, however, he otherwise considers that hedge funds and private equity "play a very positive role", providing liquidity to mispriced assets and companies, and are also key players when it comes to restructuring those firms that have to compete with subsidised products coming from China. Private equity saves jobs by saving companies, it does not destroy them, the OECD expert said.

Mr Blundell-Wignall acknowledges that these funds benefit from the fact that "capital is too cheap", but they are not to blame: "don't kill the messenger… they are only reflecting how big this liquidity bubble is". A similar analysis can be made of the present mortgage market, where new financial instruments allow the poorest and least credit worthy to buy a home, something they could not have dreamt of doing several years ago; but again, because of the enormous distortion in the system, loans have been too cheap and people have been borrowing too much. Either the world community starts tackling this issue, or the economy will suffer when China stops flooding the world with cheap products and cheap money.

BMG/HEC- MG, CV, LZ

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Mediterranean Promise

Innovation, Equity and Investment in the MENA Region

- *Moderator*: **Michel Ogrizek**, Managing Director, Mgroup
- **Dominique Baudis**, President, Arab World Institute
- **Martin Berlin**, Chief Operating Officer, Tatweer, United Arab Emirates.
- **Rainer Geiger**, Head, OECD-MENA Investment Programme, Deputy Director Financial and Enterprise Affairs, OECD
- **Omar Hijazi**, CEO, Tejari

The region incorporating the European, African and Mid-east countries surrounding the Mediterranean Sea known as MENA presents an "unprecedented opportunity" for economic development and innovation, according to OECD expert **Rainer Geiger**. But it still faces major problems, notably high unemployment (an estimated 100 million jobs will need to be created by 2020 just to maintain current employment levels), a lack of an entrepreneurial culture and a huge gap in equity, despite great wealth. The region also suffers from a poor media image.

Mr Geiger presented the MENA-OECD initiative as strongly innovative, and as a means to develop infrastructure and implement development policies through public-private partnership, which should attract investment and encourage innovation. He insisted on the development of an enterprises network to improve innovation locally. What is necessary is the improved sharing of information, matchmaking with foreign investors, and participatory models. "Labour productivity improves if workers are considered as agents of change" he pointed out.

The United Arab Emirates (UAE) is one of the most innovative players in the Middle East. **Omar Hijazi** cited the 2007 World Business/INSEAD Global Innovation Index, which ranks the UAE as the 14th most innovative country in the world, and the only country in the top 15 that was not European, Asian or North American. The astounding growth of Dubai is the most obvious example. It boasts one of the world's largest real estate developers, Emaar, and port operators, DP World. Mr Hijazi–whose Tejari firm he qualifies as an "E-Bay of the Middle East"–is a pioneer in B2B online business. Omar Hijazi credited its success with its decision to run counter to the prevailing tendency in the area, which is to invest in shorter term projects with quick returns, in favour of longer term, sustainable projects. Without such patience, innovation is stunted, he argues. One part of Tejari's strategy has been to grant franchises to local companies, whose number now approaches 80,000.

Martin Berlin, who like Omar Hijazi runs a business based in UAE, stressed that qualified labour was crucial for innovation. "Success in strategic development cannot be defined solely by major achievements in the economic sectors," he said. "Other growth enablers, such as human capital, must also be realised." Improved strategy means a vigorous and continuous investment in human capital, including leadership development.

In spite of such measures, Mr Berlin did not believe that innovation was possible until infrastructure was in place. Infrastructures draw investment, and investment, in turn, stimulates innovation. But when it occurs, will it be real innovation? Too often, the urge is to rely on well-established models–a disastrous choice, he said, since innovation is not a "cut and paste" operation.

Moderator **Michel Ogrizek** also cautioned against an uncritical pursuit of innovation, saying that "innovation, in itself, is not a business model."

Dominique Baudis quoted the United Nations: "the Arab world is more rich than developed," but qualified his statement by saying that the region is actively rethinking its future. Oil alone cannot entirely insure the future, so MENA is turning to other investment opportunities, such as those offered by the tourism and audiovisual sectors. Mr Baudis also made the key point that the situation of women in MENA is crippling development, an issue that would be addressed several times during the question and answer session with the audience. Yet progress had been made, and he pointed to efforts by Morocco and Tunisia to raise the profile of women in society. As to the role of the Arab World Institute which he presides, Mr Baudis emphasised that it could play neither a political nor an economic role, but could promote dialogue and foster cooperation.

One of the questions from the floor concerned the Islamic banking system, which operates according to Sharia law. Were they not overly restrictive, and how could they establish themselves on the international scene?

Mr Ogrizek suggested that we should perhaps think of the Muslim world at large, where huge opportunities for Islamic banking exist, and this includes South East Asia and Sub-Saharan Africa, for example. As for the constraints, Mr Hijazi did not see them as at all restrictive.
A question was raised as to what models best facilitate change. The panel agreed that no single model could be adopted. Taking Singapore, China and India as different models of successful innovation, the assumption that a democratic system is the best model for ensuring growth did not go unchallenged. In Mr Hijazi's opinion, neither Dubai nor Singapore could have achieved such fantastic development under a democratic system. Mr Geiger, however, felt that democratic reform was an inevitable concomitant of growth.

At the end of the session, Mr Ogrizek asked each of the panelists to state what their key message would be to encourage innovation in the MENA region. Mr Hijazi felt that the innovative spirit was "alive and well" in the region; Mr Berlin said that the West should consider what it could learn from the Arab World; and Mr Geiger concluded by saying that the opportunity for joint effort between MENA and OECD countries should now be seized.

LT/HEC-AM, AL, MB, KZ

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Securing Globalisation's Foundations

Infrastructure to 2030: Growth, Innovation and Finance

- *Moderator*: **Michael Oborne**, Director, Advisory Unit on Multidisciplinary Issues, OECD
- **Pierre Lefebvre**, CEO, Agence de partenariats public-privé du Québec
- **Lord Macdonald of Tradeston**, Chairman, Investment Banking Group Europe, Macquarie Bank
- **Grégoire Postel-Vinay**, Head of the Office of Strategy Intelligence and Prospective, Ministry of Economy, Finance and Industry, France
- **Hans Werder**, Secretary-General, Federal Department of the Environment, Transport, Energy and Communications, Switzerland

In this session, the moderator and speakers, having all recently taken part in the preparation of an OECD report concerning the future of infrastructure financing, shared the key findings and conclusions of this analysis with the audience. As a preamble, the panel reaffirmed that infrastructure–which for the purposes of this discussion meant transport, energy and telecommunications–is essential for growth and competitiveness. But this raises the question of whether the developed economies can maintain their infrastructure at a sufficiently high level, and, an even greater challenge, whether developing economies can build new infrastructure fast enough to meet their development needs. Telecommunications networks are essential to the development of the knowledge economy. They will have a key role to play in the promotion of sustainable development and the fight against global warming.

This is why massive investment will be needed in this sector. The American Society of Civil Engineers recently estimated that in the next five years, US$1.3 trillion will be necessary just to maintain existing infrastructure to a standard compatible with their country's economic development. Globally, if one takes transport and telecommunications infrastructures, the required annual investment amounts to the equivalent of 2.5% of world GDP. Add in energy infrastructure, and this figure rises to 3.5%.

Today the finance mainly comes from the state. However scope for public investment will be increasingly constrained because of pressure from ageing populations, including higher health and pension costs and lower tax revenues as the working population declines. Governments need to find money from elsewhere, with potential sources including increased tolls and other user charges, improvements in efficiency and better demand management. In addition, the panel focused on experiences in various countries with the use of Public-Private Partnerships (PPP) as a means of both raising funds to finance projects and easing the burden of managing the new infrastructure once completed.

Indeed, PPPs are a potentially powerful tool for solving the problems of financing infrastructure projects. Both the private and public sectors have an interest in such partnerships. By using PPPs, not only do states raise the funds to finance infrastructure projects, but they also acquire experienced partners when it comes to exercising effective management. **Lord Macdonald of Tradeston**, speaking not just as an expert on financing investments but also as someone with previous experience of working on PPPs as part of the UK government, highlighted the advantages offered by PPP to private investors. Infrastructure investment projects, he noted are becoming an important asset class in their own right, particularly for pension funds and investors with a longer term investment horizon. The attraction "comes from infrastructure's long-life, its often essential services, stable regulation and pretty predictable cash flows". Those specific features place infrastructure investments somewhere between equity and bonds in the portfolio of private investors, particularly attracting "patient capital". "Pension funds are particularly interested because the long life of infrastructure projects runs in parallel with their decade-long liability horizons". The challenge for the public sector is to attract this capital and direct funds towards the areas where it is most needed, and PPPS offer a means of doing so. In the last 10 years, there have been 900 PPP projects in the UK with a total value of £50 billion. Generally, UK experience with PPPs has been favourable, but there are still many questions about the feasibility of such projects in some areas, as certain types of project lend themselves to PPPs better than others.

Pierre Lefebvre added that PPPs have to be monitored because infrastructure projects do not just need more funding, but also "wiser funding". Success requires a strong regulatory framework, especially to promote transparency. For instance, Mr Lefebvre gives the example of "fairness auditors" to control the

relationship between the public and private sector partners. Such regulations comfort private investors and attract new actors to the market, not only nationally but also internationally. Better, standardized processes are needed to optimize PPP, and to make sure that the public sector gets a good deal, rather than simply providing easy profits for private sector partners. Indeed, M. Lefebvre noted that in the past around 20% of PPPs failed to make any profits!

Grégoire Postel-Vinay also stressed the need for strong legal frameworks for PPP in order to avoid financial crises (such as the Panama Canal and other more recent examples). He also proposed that WTO agreements related to investments and capital movements could be revised in order to remove any discriminatory practices (in the tendering process, for example) and to increase transparency.

Hans Werder added that, even in cases where PPP is used, governments retain overall responsibility for infrastructure investments, and need to guarantee that adequate maintenance is conducted, to coordinate the integration of infrastructure networks and to ensure that networks operated efficiently. He also suggested other forms of financing, noting that the introduction of user charges might be politically difficult, and that earmarking taxes might offer a second best approach, at least in developed economies. Moreover, dedicated investment funds, such as those used to construct road and rail infrastructure in his own Switzerland, were another alternative.

One question from the audience underlined another challenge raised by PPP: how to reconcile the diverging interests of the public and private sectors: ensuring both the high quality of public services and high profitability. To Mr. Lefebvre the answer lies in the details of the contract negotiated for the PPP. If the contract is well balanced, each party can act as a counter-weight to the other and make sure that its interests are preserved. In a properly drawn contract, the state can defend its priorities, while the private sector can seek to ensure an adequate return.

Nowadays, sustainable development is becoming an increasingly important factor when it comes to building new facilities. In order to cut down our carbon emissions, better and cleaner facilities are needed and PPP deals must enable governments to incorporate these objectives into infrastructure contracts. In response to other questions from the floor, the panel also highlighted the fact that developing countries cannot rely on development aid to finance their necessary infrastructure spending, and might be obliged to turn to PPP as a source of finance.

To help them to do so, the experiences of OECD countries could be very useful, and everything should therefore be done to foster knowledge transfer. This could be one of the best ways to improve infrastructures in developing countries.

Participants also raised questions about the types of project that are most suitable for PPP, with panelists noting that long-term projects where the initial contract would be less likely to require modification over the life of the project worked best. Short-term investments could probably be left to the private sector in many cases, while sectors in which conditions changed rapidly over time made drafting an appropriate contract in the initial stages difficult. Moreover, different models must be adopted for different types of investment, and this is one area in which developed country experience could prove invaluable.

MS/HEC-RP, DH

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Globalisation is Everyone's Responsibility

Public Concerns about Globalisation

- *Moderator*: **Francois Roche**, Director, *Foreign Policy*, French Edition
- **Guy Ryder,** General Secretary, International Trade Union Confederation (ITUC)
- **Jacques Terray**, Vice-President of Transparency International
- **Karien van Gennip**, Member of Parliament, Former Minister of Foreign Trade in the Netherlands

Francois Roche introduced the discussion by commenting the 2007 French presidential campaign during which people's fear of globalisation figured highly. As moderator, Mr Roche launched the debate by asking: are those concerns justified? How should they be dealt with?

Karien van Gennip first shared five insights with the audience.

First: in her mind, globalisation is "here to stay", it is not something that we can ignore or stop, it is here and it won't go away.

Second insight: globalisation will intensify interactions in the future and its direction could become even more unclear. As such it is better to get involved with change now and try and influence it as best we can. She insisted that people should not let change overwhelm them, nor treat any scenario as a fatality.

Third insight: for the Dutch Member of Parliament, the question which needs to be asked is not whether globalisation is a force for good or bad, but rather how we position ourselves as well as our companies to take advantage of globalisation.

Fourth insight: she argued that globalisation's overall effect was positive. However the costs and benefits are not well distributed between winners and losers. That is why in these very challenging times, we need social cohesion and solidarity more than ever in order to make globalisation sustainable. In this light, Ms van Gennip cited the European constitution as a way of reinforcing the competitiveness of Europe as well as its unity and identity within the global economy.

Fifth insight–and for the Dutch former minister, probably the most important: globalisation is not merely an economic phenomenon. It is not just about "our jobs being exported to cheap labour markets", it is our uneasiness and our fear of losing our identity which scares us so deeply. People are scared that China will take our jobs away, she said, and indeed it is all too easy to criticise China for its weak respect for the rules of intellectual property. But she said its government is faced with an incredibly difficult dilemma, namely should it continue to foster growth and deal with other priorities such as environmental protection. Still, the real threat, the one that most people feel deep down is the loss of their identity, the fear of a clash of civilizations accelerated by globalisation, as illustrated by our fear of terrorism. This uneasiness spurs and accelerates immigration but also nationalism and protectionism. We have to fight this fear, Ms van Gennip insists. We, as politicians and world leaders, have to understand these fears to turn them around, she said.

The Dutch MP concluded with a touch of optimism: that globalisation is not a fatality and that there are many things we can do to make it a force for the better. For instance, to truly combat poverty, we need to promote entrepreneurship and to do that, we need to make trade stronger, to change systems in developing countries to prevent corruption, and to promote more investment in health care and education in developing countries.

Guy Ryder agreed with Ms Van Gennip that "perceptions matter". After all, governments should take them into account or face sanction by the electorate. However, he disagrees that "globalisation is here to stay". Nor did he believe in the argument that people are mainly afraid of losing their identity; rather, in his view, people are mostly afraid of losing their jobs.

People's negative perception of globalisation is neither limited to one part of the world, nor to a certain level of skills. The ITUC chief insisted on the following paradox: workers in developing countries believe globalisation is loaded against them; at the same time, workers in developed countries feel their jobs are threatened by low cost countries. Furthermore, returns to workers have reached an historically low level: productivity has improved but salaries have stagnated or decreased. Globalisation has increased social inequalities in developed countries, and has failed to solve poverty in developing ones. According to Mr Ryder, those negative perceptions should be understood and responded to.

Answering a question from the moderator, Mr Roche, about Chrysler being sold to a private equity fund, Mr Ryder believed this was a special case to be understood in context. Given the crisis the company is in, the transaction has been welcomed by trade unions. However, private equity funds still raise the issues of regulation, tax regimes, the workforce and company sustainability.

Jacques Terray mainly focused his presentation on the risks of financial globalisation which has led to unlimited movements of capital worldwide. To him the absence of regulation and the huge variety of products in this field enables economic agents to exert powerful influences in any country in the world. The Transparency International representative believes this phenomenon is responsible for higher global financial risk, and he cited previous crises in Russia and Argentina as examples.

But another dangerous risk linked to finance is the rise of international criminality. In his view, financial globalisation opens up the field to all kinds of trafficking and a higher use of so-called "tax heavens". Unless policymakers get on top of such related crime, people's perceptions of globalisation will inevitably be negative.

Mr Terray also drew attention to the OECD anti-bribery convention, which marks its 10th anniversary later in 2007. Though an important tool in the fight against worldwide corruption, a decade later, the goal of the convention remains far from being achieved. Consequently, Transparency International would like to see a strengthening of the OECD effort and the continuation of its strong monitoring mechanisms against corruption. As such, he concurred with other panel members: globalisation is not a free-for-all and it won't work unless everyone plays by the rules. This did not just apply to China, which Mr Terray was being used as an excuse by others for their own inaction. Everyone is responsible for making globalisation a success, was the underlying conclusion.

RC/HEC-AD/PS

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Beyond Hot Air

Climate Change: from Words to Action

- *Moderator*: **Lorents Lorentsen**, Director, Environment, OECD
- **Asit K. Biswas**, President, Third World Centre for Water Management
- **Tore K. Jenssen**, Vice-President, SHEQ, Yara International ASA, Norway
- **Sheri Xiaoyi Liao**, President, Global Village of Beijing, China
- **Guy Ryder**, General Secretary, International Trade Union Confederation (ITUC)
- **Hans Verolme**, Director, Global Climate Change Programme, WWF, Switzerland

There is a deluge of figures on the impact of climate change on our societies. But they do not mean much, according to **Asit K. Biswas**, unless you consider the distribution of those figures. It is physically impossible for the global amount of rainfall to increase or decrease, but its distribution will shift. Seasonal rainfall levels, particularly in tropical countries, have a tremendous economic and social impact on those societies.

As an example, the president of the Third World Centre for Water Management compared London and Delhi, whose rainfall levels are similar. Rainfall in London is pretty much a constant, as anyone knows who has lived there. But in Delhi, 90% of annual rainfall occurs in less than eighty hours. We must be wary of generalising the figures, Mr Biswas said. A much welcome drop in rainfall in Delhi could have disastrous consequences for sub-Saharan Africa. Water management will be complicated by climate change, especially in developing countries. It is nonsense, he said, to talk about climate change without taking into account water, food and energy security.

Tore K. Jenssen said that encouraging companies to pursue environmentally sound policies was difficult, necessitating regulation to force compliance. What are lacking are incentives for compliance. Mr Jenssen, who is vice-president of Yara International, regretted that rich countries, in particular members of the EU, had delayed the adoption of ambitious trading schemes to reduce emissions.

Guy Ryder, General Secretary of the International Trade Union Confederation, was more optimistic. He noticed a "spectacular" change over the last few years, as more trade unions, entrepreneurs and CEOs were sincerely committing themselves to fighting climate change. What people have done is admit that our economies are "addicted to carbon," which, like any other addiction, cannot be cured until this first, decisive step is taken. Next, we must be willing to face the fact that managing climate change may be costly today, but will pay off tomorrow. Politicians hate to deliver this message to electors, however. One high official frankly admitted to him that if politicians pressed for more stringent measures, "how would we get elected again?". He blamed companies and politicians for their timidity. But nor did Mr Ryder spare the trade unions, including his own, which was not a supporter of the Kyoto protocol until he took over at the helm.

Sustainable development had three dimensions: economic, environmental and social. Therefore, strategies designed to manage climate change could not neglect the latter. Can jobs become "greener"? Yes, but new jobs will require new skills and retraining. Failure to realise this undermines the aim of sustainable development, Mr Ryder felt. This is where trade unions can make a crucial contribution.

Hans Verolme, citing the much-quoted 2006 Stern Report, said that "we can afford to stop climate change." But we must be bold and act now; if we do not, climate change will be (again quoting the Stern Report), "the biggest market failure of the 20th century." Mr Verolme argues that we must make present energy use greener, invest in alternative energies, and halt rampant deforestation, which alone accounts for 20% of CO2 emissions. But implementing these measures only makes sense in a global framework. For the director of the WWF's Global Climate Change Programme, what we need is a new "climate change deal."

Although much of this burden falls on the shoulders of companies and governments, **Sheri Xiaoyi Liao**, the founder of Global Village of Beijing, stressed the importance of educating the general public too. This means making people aware not only of the consequences of climate change but of the concrete measures each person should take to avert them. Global Village, for example, distributes a series of leaflets. On one side of each leaflet are the results of one aspect of climate change; on the other side, the

action one can take to avert it. Furthermore, on each leaflet is printed a phrase, which, when recited with the others, form an easy to remember refrain, a sort of aide-memoire. Such concrete and accessible methods, she feels, are the best way to enlighten people to the seriousness of climate change and encourage new habits.

Sheri Xiaoyi Liao also underlined the vital role of the media. Media, working with companies, governments, NGOs and experts, can also raise general awareness and foster responsibility. Finally, the Global Village founder called on rich countries to be more pioneering in fighting climate change.

The panel agreed that managing climate change is an immensely complicated task. It is not something undertaken unilaterally, but must be shared by all countries. Many countries–an audience member singled out Russia as an example–lack the regulations or the incentives to change. Moderator **Lorents Lorentsen**, the OECD Director of Environment, agreed that this is a distressing problem, and one of principal goals of his Directorate. Negotiating the hurdles towards a global policy on climate change is daunting. No one could say exactly how this can be brought about, except by ceaseless, uncompromising effort and the willingness to work together.

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Grey Matter Matters

Education, Equity and Growth

- *Moderator*: **Barbara Ischinger**, Director, Education, OECD
- **John Bangs**, Assistant Secretary, Education and Equal Opportunities, National Union of Teachers, United Kingdom
- **Donatella Linguiti**, Under Secretary of State for Equal Opportunities, Italy
- **Ana Luiza Machado**, Assistant Director-General for Education Programme Management, UNESCO
- **Eli Opper,** Chief Scientist, Ministry of Industry, Trade and Labor, Israel
- **Wusheng Zhang**, President and Professor, Tianjin Academy of Educational Science, China

"It is clear that education is linked to growth", stated the moderator, **Barbara Ischinger**, in opening the discussion. It has been demonstrated that upper secondary education improves students' earnings by about one third, decreases the risk of unemployment, especially for young people, and increases output per head in the economy as a whole by about 6%. Knowledge industries are the sectors showing the most rapid growth rates, and these require skilled workers. That is why more investment is needed.

Not only can investment be effective at helping entry to the labour force, but it can also sustain the employability of older workers at a time when labour forces are beginning to shrink. Ms Ischinger went on to highlight the universal and substantial effect of social background on education levels in all countries, but also noted that some countries are doing better than others, which raises the possibility that education systems can make a difference in terms of narrowing inequalities and moderating the influence of social background

In **John Bangs'** view, the wealth and happiness of a country is closely linked to the level of education of its population. Education is a right, and that right is the key to a happy society, an equitable community, and a buoyant economy. Still, all children do not have equality of access to good education and might not have the opportunity to learn new skills and disciplines throughout their adult lives either. Hence the need to secure a high quality, equitable, country-wide education system by implementing six essential principles:
1. Cohesive policies between all industrialised countries so as to promote education.
2. The establishment of a global, United Nations target for average spending on education should help to narrow massive inequities in educational spending between developing and industrialised countries.
3. Education should be a public service with no private providers, but with supportive private partners.
4. The use of differentiation between students in order to meet individual needs within schools, but never between types of school.
5. Continuing professional development for all teachers.
6. Institutional self-evaluation to identify and rectify weaknesses. In Mr Bangs view, those principles are the key for a happy future for our society.

Donatella Linguiti, taking the example of Italian policies, called for a "fundamental change of the socio–economic paradigm" to build a new economy, a new society and to raise environmental standards through a new development model characterised by secularity, universalism, knowledge and innovation. This new development model requires that more money should be invested in scientific research, but also in the diffusion of education among citizens. Education should also be reformed so that diversity becomes an objective in a public, inclusive quality school system, which is the best guarantee for democracy and improvements in the quality of life for each and every person. She also insisted on women's rights as "an essential condition for a development path which takes into consideration the aspirations of all persons rather than a subset of privileged ones" and on the necessity of banning any gender differences in government, which requires "rewriting the rules of policy making and setting up new patterns of social behaviour". In conclusion, she recalled that 2005 marked the beginning of the Educational Decade for Sustainable Development: "a crucial opportunity for further advancement towards a sustainable world".

Ana Luiza Machado stated that UNESCO's work on education is defined by two main frameworks: that covering education and equality for women, and the Dakar commitment for 2015 to achieve education for all. She insisted that the fight for equity must encompass three dimensions: among geographic regions,

within regions, and within individual countries. UNESCO's framework identifies six key dimensions that determine access to education. These include income level, area of residence, ethnicity and gender inequalities. Combinations of these factors multiplied their impact. For example, in the Caribbean region among girls not enrolled in primary schools, 82% are living in rural areas. Moreover, inequality of access is widening in some countries, including ones that have had rapid economic growth – growth alone is not enough. In conclusion, Ms. Machado recalled that school is the only way for many people to leave poverty behind, and that the quality of schools needs to be high even in rural areas.

Wusheng Zhang, supported the idea that "globalisation in higher education is necessary for the development of higher education". Statistics show that millions of students studying abroad and thousands of teachers or educators teaching away from their native countries generate a market of billions of dollars from tuition fees, accommodation costs and salaries. It also raises the skills base of many developing countries lacking their own high-quality further education systems. To tap into this potential market and not to lag behind in terms of educational standards and prestige, some developing country universities have introduced courses and teaching materials from more famous universities from all over the world, which has promoted internationalisation. In addition to existing international co-operative programs: "globalisation in higher education is progressing and has a bright future". Such a trend in higher education systems obviously benefits both developed and developing countries: for developed countries, globalisation offers a way to "enlarge their influence in the politics, economics and culture of the countries of foreign students and thus producing tremendous profits". Developing countries gain the opportunity to learn quickly and master advanced technologies and science. Still, globalisation in higher education is bound to strengthen inequality, putting industrialised countries at the centre of any new technologies and therefore ensuring that they maintain a dominant position, partly due to the consequences of 'brain drain'. Hence, the speaker offered three suggestions to try to promote equal development in higher education:

1. Cooperation between universities in the developed countries and those in the developing countries so that students are given a chance to take the courses offered by foreign universities while remaining in their own country. They should also be awarded the same qualifications when they complete the required course, thus reducing the cost of learning 'abroad'.
2. Encourage the developed countries to increase the numbers of their own students that are sent abroad to developing-country institutions, thus balancing flows.
3. Coordinate the flow of world students with the help of international organisations such as UNESCO and the adoption of "proper policies to encourage overseas students to return and serve their own country when they finish their learning abroad".

Eli Opper highlighted Israel's relative success in a competitive technological context, noting that "Israel is a great source of innovation". High technology research and development plays a significant role. Israel has 140 engineers and technicians per 10,000 population, whereas Japan and the US have only around 80. Education and innovation are essential to the economy, especially high quality education. If you want real economic growth, he noted, you need high quality in education and strong technological innovation: "Excellence is the word in which I believe".

Questions from the floor cast light on the inequity of "brain drain" and possible solutions to address the problem of students that quit their own country. Eli Opper, taking the Israeli example, explained how having top universities in Israel and flourishing, top class industries has helped attract students back to their homeland. But, as another participant pointed out, such a solution requires a minimum level of technology and will therefore never be an efficient solution for developing countries.

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Doha and Beyond
Future Challenges for the Multilateral Trading System
Closing Session

- *Moderator*: **Alan Beattie**, World Trade Editor, *Financial Times*
- **Phil Goff**, Minister of Trade, New Zealand
- **Frank Heemskerk**, Minister for Foreign Trade, Netherlands
- **Humayun Akhtar Khan**, Minister for Commerce, Pakistan
- **Pascal Lamy**, Director-General, World Trade Organization
- **Eduardo Sojo Garza-Aldape**, Minister of Economy, Mexico
- **Oscar Tangelson**, Secretary of Economic Policy, Ministry of Economy and Production, Argentina
- **Sten Tolgfors**, Minister for Trade, Sweden

The key message here was clear: Today, the multilateral system has extended from agriculture and manufacturing to services, technologies, innovation and beyond. The way we handle the multilateral trading system is going to affect the way we live in the years to come. The debate is going to continue in wider and wider circles, while the development dimension will remain central, even beyond the Doha trade round. The multilateral system is not about protecting yesterday's profits and entrenched interests for particular countries, but to regulate, integrate and open up trade to the benefit of all countries for the future.

Phil Goff reemphasised the benefits accruing from trade liberalisation, citing a recent study which demonstrated full global tariff removal would be worth $290 billion a year to the world economy. Indeed New Zealand's own process of liberalization, despite certain adjustment pains in the medium term, has provided huge net benefits, including one of the lowest unemployment rates in the world. The New Zealand minister also asserted the necessity of multilateralism in such a process, arguing for its benefits in terms of equity and efficacy. Hence he asserted that it is critical to ignore the siren calls of bilateral or plurilateral deals. Furthermore, in this speaker's view, the Doha round still only represented an incremental step in the process of trade liberalisation, ensuring ongoing benefits to developing countries and a gradual timetable for adjustment. Yet the leadership of the G4 group, as well as the acknowledgement among countries that some sacrifices will be necessary, will be required before an agreement can be reached.

Frank Heemskerk concentrated on three topics linked with the multilateral system – global governance, climate change and social importance. On global governance, the public authorities play the part of regulation and rule making. Currently, in the global context, the markets and trades are global, yet the governance is not. The key question is whether the international community is able to establish a global governance, and encourage its wide adoption.

The Dutch minister for foreign trade also challenged perceptions that open trade is a cause of climate change. He stated that trade is a solution, not a problem. He stressed that global transport is essential as foreign manufacturers usually bring in higher standards of goods. And it is more essential for developing countries, as they are usually far away from the trading center of the world. Spreading "green" technology, for example, is one job for which the trading system is needed.

Finally, Mr Heemskerk pointed out that the economic activities need trust and confidence in addition to regulations. In order for the international community to achieve growth, WTO cannot be isolated from governance. Yet at the same time, social responsibility is one important factor in terms of reaching sustainable globalisation. Each market participant has to win public trust and behave in a socially responsible way.

Paraphrasing Albert Einstein, **Humayun Akhtar Khan** warned that "we shall require a substantially new manner of thinking if the multilateral system is to survive", thus expressing his disillusionment with progress in the current Doha trade round. Mr Khan was heavily critical of the recent focus on bilateral trade agreements, including a recent US-Korea accord, which he felt diverted time and resources away from the more crucial Doha goals. But Pakistan's commerce minister also feared and lamented that this reflected where the priorities of certain countries really lay. Mr Khan invoked the shared heritage of the multilateral system, qualified Free Trade Agreements as discriminatory by nature, and urged multinationals to bring pressure to bear on governments and explain the benefits of a more generous

opening of their markets to developing countries. But even in the event of a successful conclusion to the Doha trade round, Mr Khan finds few grounds for optimism: "progress will be limited; subsidies will be left untouched; and discriminatory tariffs against developing countries will be reduced, not eliminated".

Pascal Lamy spoke about the future of the multilateral system. As director-general of the World Trade Organization, Mr Lamy indicated that in the short term by the end of the negotiation, we would face urgent challenges, not least of which will be to fill the promises made to the developing countries. He stressed that the multilateral system must be fair and unbiased, for then it would benefit both the developed countries and the developing countries.

Mr Lamy remains optimistic, saying that progress was "moving forward", although slowly. He also strongly emphasised the importance of the multilateral system, saying that "we need more, not less multilateralism in the future", and that with challenges like climate change, it is essential for all members to be talking together.. He used the game theory to illustrate his point: if all the 150 countries take different stands, the chance of reaching an agreement from the host of possibilities will be zero.

Mr Lamy disagrees with the semi-conventional wisdom that the Uruguay Round is bad for the developing countries. He used the textile industry as an example. A decade after the multi-fibre agreement in 1995, the global textile industry has been transformed for the better and that it is the developing countries that have benefited from the change.

There then followed two views from Latin American representatives. **Eduardo Sojo Garza-Aldape** laid out his stall clearly from the outset: "Mexico believes in open markets and has experience in open markets." The Mexican economy has progressed markedly since joining the OECD over a decade ago, and the minister went on to explain how trade liberalisation has helped generate those benefits: Mexico has gained greater access to markets that represent 75% of world GDP, quadrupled exports in ten years, and seen inward FDI average $20 billion in the past six years. But Mr Sojo Garza-Aldape is under no illusion that free trade is not a panacea: "just as open markets should not be blamed for a country's problems, they should not be overestimated either…a lot depends on domestic politics". But Mr Sojo Garza-Aldape still warns that if the Doha round fails, the multilateral system will be reduced to a mechanism for resolving disputes, and this will inevitably generate tensions. But what is worse, in his opinion, is that failure will deny the world a new impulse to trade and economic growth and cause inequalities between countries to grow again.

The Argentinian representative took this view further. "The world is undergoing a paradigm shift" in the opinion of **Oscar Tangelson** "that is modifying the bases of economic growth and trade". Against this backdrop, Mr Tangelson believes that the current trade negotiations display a marked lack of reflection about the concept of long term development. Globalisation is already much more than financial and economic integration, argued Mr Tangelson, and the world needs to reflect on the huge geopolitical and social changes that are now taking place. As a traditional agricultural exporter, Argentina clearly wants more trade liberalisation, but it also realises that it must now look both west and east. Mr Tangelson concluded his intervention by pointing out that the emigration of well-educated workers from the developing world represents an implicit subsidy from poor to rich countries, which needs to be dealt with.

A key message of **Sten Tolgfor's** speech was the importance of trade liberalisation to combat climate change, especially given the need to improve bio fuel resource allocation and hence create a global price for ethanol. Distortions such as the existence of high tariffs on ethanol imports, domestic production subsidies and a proliferation of standards are preventing countries which have a competitive advantage in bio fuel products from achieving their full potential. The minister from Sweden also emphasised the need for increased flexibility to reach an agreement at the Doha round. The multilateral nature of such a deal was paramount, he argued, given the diverse supply lines of modern multinational corporations as well as the need to protect small countries which lack the weight to conclude satisfactory bilateral negotiations.

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