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Innovation's Magic Powder

Opening Plenary: Innovation, Growth and Equity

- *Moderator:* **David Eades,** Presenter, BBC World
- **Jordi Sevilla,** Minister of Public Administration, Spain
- **Angel Gurría,** Secretary-General, OECD

Although financial brokers have not traded in the Paris Bourse for several years, the two-day international OECD Forum managed to deliver a rich and busy exchange of information and ideas in the setting of this magnificent historical building in the heart of Paris.

"Globalisation scares those who fear it will change their way of life forever," noted moderator **David Eades** of BBC World who launched the event, but this very change is a goal worth achieving if it can lessen the disparities among world economies over time. "With more globalisation, the sense of inequality is perhaps greater than it has ever been," Mr Eades remarked, and this set the stakes high for discussion on innovation.

An optimistic speech by OECD Secretary-General **Angel Gurría** urged the audience to capitalise on recent growth in the global economy to expand innovation, both to maintain competition among developed countries and to hasten the development of poorer countries. He cited the "One Laptop per Child" project as an example of a technological innovation with the potential to produce a favourable environment for long-term investment. "A little bit of innovation goes a long, long way", he said with enthusiasm.

Mr Gurría presented education as the essential method for fostering innovation, noting as well the importance of a business environment compatible with science and technology advances. "There is a link between innovation and economics which is more appreciated by policy makers now," he said, and the creation, dissemination and application of knowledge will continue to be the OECD's main role in the face of economic globalisation. The "magic powder" of innovation will continue to permeate OECD work, with an OECD Innovation Strategy planned for the near future.

Jordi Sevilla, Minister of Public Administration, presented Spain as a case study for how the use of innovation via modern technology can enhance government services and achieve greater equity. Spain was also noted as a model for migration as, once a country of emigrants, it now attracts young, productive workers with positive economic benefits. In assessing the issue of migration "we need ideas to make success stories," said Mr Gurría, "and can look on Spain as a model."

Recalling the adage "think globally act locally", Mr Sevilla concluded by proposing the development of a network of sustainable cities as a possible topic for discussion, underscoring the value of input from attendees in guiding the development of such an initiative.

CW/HEC-ED

Back to top

A Source of Co-operation

Water: How to Manage a Vital Resource

- *Moderator:* **David Eades**, Presenter, BBC World
- **Asit K. Biswas**, President, Third World Centre for Water Management
- **Peter Brabeck-Letmathe**, Chairman of the Board and CEO, Nestlé S.A.
- **Angel Gurría**, Secretary-General, OECD

"A water crisis will not occur not because of scarcity but because of poor management." This was the main message from this morning session of the 2007 OECD Forum.

The public attention devoted to water over the next 20 years will be greater than the last 2000, according to**Asit Biswas**. It is an issue that has been taken for granted for too long. Our consumption of water treats supply as inexhaustible, but while "there are substitutes for coal and petroleum," said **Peter Brabeck-Letmathe**, "there is no substitute for water."

Business leaders and civil society representatives agreed that if the water problems are not solved, we are to blame for poor management. What most people worry about is fresh water – drinking water. But agriculture and industrial use claim a far larger share. Agriculture accounts for most water use, but one corporate leader warned that action was needed on general consumption, too, since in the OECD area we consume thousands of litres of water (contained in food, production, etc) every day without even realising it.

Of course for development water is most critical and **Mr Gurría** launched a simple challenge: "Follow the water, and you will be able to solve the problem of poverty and other problems." Scientific breakthroughs would help, but so would innovative policy thinking.Panelists agreed that water pricing could avert a crisis, for instance.

New institutional global arrangements might also be explored, to focus action on improving drinking water and sanitation.

And as ever, education has been shown to produce results, and participants were told of how cooperation between companies, NGOs and individuals in India has helped children take better care of water resources and improve their sanitation.

Waste is a major issue. Professor Biswas said that, on average, a city may lose as much as 15% of its water to leakage. Decaying infrastructure and lax management are to blame. But it need not be so. He described Singapore as an example of best practice in successful water management. Compared to the 15% loss to water supplies in the average city, Singapore loses only 5%. Phnom-Phen was another example: vastly improved water management despite limited technology and the willingness to recycle waste water. While the idea of recycling waste water is a huge psychological barrier for many in the OECD area, in Singapore the recycling plant is the country's third largest tourist attraction.

The OECD Secretary-General said that resolving water problems could serve as a benchmark for determining the success of other policies. "Follow the water," he said, "and you can tell how well we do on poverty."

Water is also a fantastic opportunity of economic growth through co-operation. In Bhutan, GDP per capita in Bhutan soared following a government decision to work with India and in water related technologies. The idea that competition for water will be a future ground for conflict is unjustified. Rather, it should prove to be the means for closer collaboration.

The panel agreed that water should have a price. "If it's free, there's not a hope you'll get it," Professor Biswas said. Free water, in fact, hurts the poorest because a price facilitates distribution. Water is a "right," the assumption that most people would reject paying for water is unfounded.

The question of education was raised. Placing the problem completely in the hands of NGOs and governments does not always work, Mr Brabeck-Letmathe said, citing a case in India, when a project for digging wells failed after a few months when the wells were spoiled. A new programme was launched, in which wells were dug near schools where children were being taught about the importance of water. The children became the custodians of the well, drawing it, carrying it home, and making sure the water remained clean.

The panel saw good reason to be optimistic: the solution for the water supply is close at hand. The main challenge for water-stressed developing countries is to get rid of bad governance and bribery so that real policies could be implemented by changing their aging institutional structures.
Mr Brabeck-Letmathe agreed that enormous improvement can be made in water management. Innovation has to be introduced from suppliers to consumers, to decrease the loss of water. He insisted on the fact that on average, 25 to 30% of water in the developed countries and 50 to 70% in developing countries were wasted. He also reminds water consumption is larger than what can be expected, for instance it takes 1 liter of water to produce one calorie of food and agricultural consumes 90% of total fresh water in the world. "The issue of water is not tomorrow's problem, but today's problem" he insisted. "Water is a human right", he concluded and proposed that 25 liters per person were given without charge, but it needed to be charged after to solve the management problem.
Mr Gurría shared this view: "the reality is that water is a global challenge" he said. Access to water is one of the key development factors and provides a good overview of the development process he added. Although some forecast that three billion people would lack access to water within 30 years, he was optimistic: "the situation is unacceptable, but also avoidable" he added, referring to the opportunities afforded by new technologies. The major challenge is to forge public-private partnerships to develop the right infrastructure and pricing to encourage responsible use.

Mr Brabeck-Letmathe agreed with a suggestion from the floor that users needed to be more closely involved in water management. "Most of the solutions are there, most of them demand grass-roots' involvement" he said and pointed to the educational programmes in water management for children financed by Nestlé in 24 countries. Another comment raised the issue of coordinating public intervention to improve water management. Mr Gurría agreed with this and wanted to see a greater water-oriented focus in global institutions.

Though another bureaucratic institution was not needed he said, co-operation could improve public management and the effectiveness of foreign aid dramatically. "Money is not the issue" he insisted.

LT/Adrien Matray and Morgane Bouhenic

Back to top

Controlled Energy

Open Markets and Regulation for Energy

- *Moderator*: **Lord Watson of Richmond**, Chairman Europe, Burson-Marsteller
- **Arthur de Montalembert**, Vice-President, International and Marketing, AREVA, France
- **Lionel Fontagné**, Scientific Adviser, CEPII, France
- **Stephan Singer,** Climate and Energy Expert, WWF
- **Piotr G. Wozniak**, Minister of Economy, Poland

Lord Watson of Richmond sets the tone of the debate with a quote from the Stern report: "climate change is the greatest failure of the markets". So in this context, he asks, how should climate change now be addressed, and in what framework? What is the role of firms and government? In Lord Watson's view, companies must respond appropriately with a new business sense, as there is "a lot of money to be made out of climate change in the decades ahead". Whereas governments must decide whether there is still a role for national energy policies or whether a supranational framework is now more relevant.

Arthur de Montalembert asserts that climate change will deeply impact energy markets and his company is already addressing this challenge by investing in renewables such as biomass. One of the biggest challenges now facing the sector is the need to build new infrastructure that is able to guarantee security of supply and fight climate change. Mr de Montalembert estimates the value of these investments at US$20 billion by 2030: "We have an investment window opportunity now. Investments made today will be with us until well into this century". He also calls for a combination of "the best that the market can offer in terms of efficiency with the oversight of government policies and regulation". Access to new energy sources should be increased by opening borders to international investment; international licensing requirements need to be harmonised; and the use of long-term contracts expanded in order to enhance predictability for both energy companies and states. Finally, Mr de Montalembert defends the need for a "pragmatic" energy mix, and rejects the idea that nuclear power is not economically competitive. "If this were the case, nuclear power would be dead by now."

Lionel Fontagné presented a comprehensive overview of the challenges and uncertainties facing the energy sector today: fossil fuels are depleting, with the world's gas and oil reserves likely to last for 50 to 70 years at most, while energy demand is increasing by 1.6% a year and will inevitably clash with environmental constraints. Supply is also insecure, with over 85% coming from 10 countries, often with unstable political regimes. Moreover, as energy is not produced but extracted, it generates a rent, which is often not used for development but fosters corruption and even terrorism: "the market will not be enough on its own, there is need for regulation". The existence of very large scale and network economies in the energy sector also underlines the real need for a supranational regulator, possibly at the European level. Europe must "speak with one voice"; taxations schemes should be made more environmentally friendly; energy sources must be secured and diversified; and as European firms face the constraints of the Kyoto protocol, Europe might even consider the possibility of taxing imports from countries who do not respect this protocol.

Stephan Singer called for no less than a "Global Energy Marshall Plan" in response to climate change, and proposed the construction of a huge offshore network of windmills along Europe's western seaboard. Countries must establish a clear hierarchy of priorities, argued Mr Singer: "security of supply is only a subset of climate change". If we want to limit global warming to 2°C, greenhouse gas emissions need to be reduced by 50% by 2100. If the rich world is to accommodate the poorer world's legitimate right to develop, however, then OECD countries must shoulder most of the burden of this reduction and reduce their emissions by 80%. "Of course, there is a cost of combating climate change…but the cost is 20 times smaller than that of the effects of global warming". Mr Singer spoke of the current shift in investment focus and the fact that "coal is back as a fuel of choice": we must therefore address the issue of carbon capture and storage, coupled with measures to increase energy efficiency in order to reduce demand, and control the environmental effects.

Piotr Wozniak urged the audience us to listen carefully to what energy suppliers say about themselves, and particularly to Russia, whose strategic energy plan contains explicit political objectives

that require support for Russian foreign policy from countries that buy its gas. Poland recently endured harsh energy restrictions because of supply cuts from Russia, for example, and has since decided to be less dependent on outside supply and to put an emphasis on "safety and security first". "I am from a country where coal is king and hopefully we will keep that king on its throne". Indeed, Mr Wozniak points out that coal burning and carbon capture are now cheaper than the lowest cost nuclear technology. Nonetheless, Mr Wozniak defends the need to create a new international agency in order to regulate the energy market, and urges OECD countries to take measures to prevent gas producers from setting up a cartel.

BMG/HEC-AS,GG

Back to top

Leadership, Consensus and Timing

Making Reform Happen

- *Moderator*: **Aart de Geus**, Deputy Secretary-General, OECD
- **Tine Aurvig-Huggenberger**, Vice-President, Danish Confederation of Trade Unions
- **Philippe Manière**, Director-General, Institut Montaigne, France
- **Gil Rémillard**, Chairman and Founder, International Economic Forum of the Americas/Conference of Montreal, Canada

OECD countries have made considerable progress in structural reform in the past two decades. From lowering barriers to international trade and foreign direct investment to financial market liberalisation, many have come a long way since the early 1980s. But more needs to be done.

A favourable world economy would seem to make now as a good time for reform as ever, and several large and small OECD countries are starting to act. The question is how to see reforms through.

Historically, major reforms have been forced on governments by crises, in periods when there was widespread acceptance that reform was essential. More recently, the problem has been securing a consensus in favour of reform in more normal circumstances. This is what the political economy of reform is about.

Aart de Geus opened the discussion on this area of growing interest. Mr de Geus began by reviewing Dutch experience. The former minister pointed to the problems of reforming the early retirement and disability benefits systems, both of which were conducted successfully. It was not enough to know what was needed, he said, the difficult part was achieving widespread acceptance of change: the government had to get the support of the population to stay in office long enough to make the reforms work.

Tine Aurvig-Huggenberger remarked that Paris is an appropriate place to discuss how to make reforms happen because "Paris is the city of light, but the French government appears to have been stumbling into darkness." French leaders have even travelled to Denmark to study the flexsecurity system. But Ms Aurvig-Huggenberger thinks they missed the point. For her, Flexsecurity works because it is accepted by all of the social partners. It involves no job protection, but has been acceptable to the unions because it has pushed unemployment down to 3.5%. There are no onerous social security contributions to discourage job growth, and unemployment benefits are generous. Moreover, adult education and retraining schemes are provided to try and get people back to work as quickly as possible. This combination has resulted in greater labour market flexibility and helped to maintain competitiveness, but with reduced risk of social exclusion. In short, Europe needs reforms that combine security for individuals with an adaptable labour market, along with adequate financing for education and retraining. However, the system works because the security aspects of the system ensure widespread acceptance. In addition, the system benefits from the long national tradition of cooperation between the social partners.

According to **Philippe Manière**, you have to consider three key points in order to reform. Firstly, you need to know what you want to do, and do it in a fair way. You should reform as far as is needed, but you should not "reform and shake people up for the sake of it". You have to act fairly and make sure that people can see you have done so. A second point is to "sell your plan smartly". Acting unexpectedly can be a good idea, as long as people eventually feel that you have remained consistent with your underlying policies. Thus, a main quality of a reformer is to know how to communicate, not only to explain your plan to people but convince them as well. The third point is about relying on people. "French people tend to think that if you get the support of Parliament, you make it: but that is the easy part!". Above all, you have to encourage people to change their behaviour and to embrace the reform goals as their own. As a conclusion, Mr Manière identified three ideas to underpin reform: common sense, ambition and patience.

Gil Rémillard highlighted five conditions to make reform a success. The first one is not as obvious as it seems: reformers should thoroughly understand the reform they want to implement. They have to consider what needs to be reformed, how the process will be conducted and how the reform will

benefit citizens. The second condition is to demonstrate determination to implement the reform, in other words the "continuity of action". This requires strong leadership and clarity and coherence in what is done. The team you choose should also be carefully considered. You should combine reputable experts with a good knowledge of the sector to be reformed and people of conviction who are well respected in their field. With these people in place, you will be able to set a dynamic and realistic plan in motion – which is the fourth requirement. "You should never improvise a reform; the only thing you can do is adjust it". Finally, you have to develop an internal and external communication plan designed to involve managers and employees and demonstrate transparency and responsibility. As a Newsweek headline once put it "slowly is beautiful". Mr Rémillard also linked the success of reform to three keywords: leadership, consensus and timing.

All speakers agreed with this view. However, Aart Jan de Geus added that if you wait until everybody is convinced, that probably means that you have gone too slowly. Concurring, Gil Rémillard reminded the audience that "consensus does not mean unanimity", while a view also echoed by Philippe Manière: "at a certain point, a reform has been explained enough and you have to act".

A question from the floor raised the issue of the extent to which the success of Denmark's labour market reforms had been dependent on the support of the social partners. Tine Aurvig-Huggenberger responded that being a small country with a homogenous population and a 100-year history of tripartite consensus had clearly helped. Moreover, she added that Nordic trade unions generally tended to bargain on issues other than just wages, seeking consensus on matters such as working conditions and other labour market questions, and were comfortable with this pragmatic approach.

Another participant questioned the need for consensus-building at all, given that an elected government had a mandate to carry out any reforms promised in their manifesto. Another participant questioned whether in some areas, such as global warming, we could afford the time it would take to build a global consensus on necessary changes.

In summing up, the moderator noted that in the Dutch experience, a recognition that change was necessary for the national interest helped to swing opinion quickly behind reform efforts. In general, Mr de Geus also noted that although it was important not to go too fast, it was not always possible to wait for 100% agreement: sometimes governments have to govern, which means making a decision, and then taking on the debate afterwards.

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Back to top

Protecting an Innovative Future

Keynote Panel: Innovation, Intellectual Property and Investment

- *Moderator*: **Tsuyoshi Nakai**, Director-General, JETRO Paris, European Co-ordination Center
- **Akira Amari,** Minister of Economy, Trade and Industry, Japan
- **Nani Beccalli-Falco**, CEO, GE International, Belgium
- **Pier Luigi Bersani**, Minister for Economic Development, Italy
- **Francis Mer**, Chairman of the Supervisory Board, SAFRAN

Openness and protection are both key aspects of innovation, the audience heard at this keynote panel entitled "Innovation, Intellectual Property and Investment". One of the great innovations of the last century is aviation, and a question summed up the paradox: How would you like to fly in a plane with spare parts of illegal origin? Asked by **Nani Beccalli-Falco**, it emphasised the high stakes and very real implications of intellectual property infringement in the field of innovation. Yet, excessive protection, in medicine for instance, risked preventing benefits from reaching millions.

The other speakers; **Akira Amari, Pier Luigi Bersani, Angel Gurría, Francis Mer**, and **Tsuyoshi Nakai,** each addressed a different aspect of innovation's more challenging side, revealing varying priorities and perspectives, warnings and eliciting pointed questions from participants. Many of the speakers called for open-minded and creative approaches to finding balance between the protection of intellectual property and the provision of incentives for investment in innovation.

Mr Amari called for the improved promotion and commercialisation of innovation as well as the cultivation of favourable environments to engage key players in the global economy. Laying out detailed suggestions and citing examples, he also promoted the use of government "eco-innovation" to achieve goals in energy and environment sectors. Japan's response to the petroleum crisis in the 1970s served as a model for how technological innovation and civic consciousness or involvement can produce positive results, in this case, encouraging the purchase of hybrid cars. Minister Amari also praised Japan's efforts to promote efficient use of domestic intellectual property rights for small and medium-sized companies, expressing confidence in the OECD to provide guidance on this issue.

Mr Mer identified two major issues that stand to benefit from improved co-ordination of global innovation: climate change and ageing populations. He warned that the long-term consequences of these issues are likely to prove very serious unless concrete action is taken today, but that innovation provides "a key to our collective success." This innovation must be co-ordinated among governments and between public and private sectors, he said, underscoring his point that "it is indispensable to make progress together." Education is essential to cultivating this human potential for innovation. Former French Minister Mer's outlook also stressed civic responsibility for encouraging innovative solutions through education and action.

According to Pier Luigi Bersani, growing firm mobility is increasing demand for environments favourable to investment. "We need a new culture of innovation", he stated, proposing a citizen-driven evolution which would take cues from enterprises, universities and citizen groups. Governments can play a role in ensuring that "innovation is not a monopoly" through deregulation and improved international co-operation. Citing Italy as an example, the minister highlighted the potential for reforms to open new markets for innovation, as well as the need for strong intellectual property rights protection. Italy's existing bilateral agreements on counterfeiting and IPR strengthen this point, though Mr Bersani paired his statement with a call for restraint in intellectual property restrictions. The minister warned that "extreme" protection may in the end inhibit diffusion of innovation by leading to wariness of costly patent and license litigation.

Nani Beccalli-Falco presented what he described as a "critical link between liquidity and intellectual property rights", claiming "there is more cash in the world than there are good ideas to be employed." Liquidity and investment breeds innovation, he argued, but must go hand in hand with a system of IP protection for it to be sustainable. In the long term, innovation is not only essential for economic growth, but a crucial way for Europe to remain competitive in the company of China's strong investment levels in technology. One way to encourage innovation, Mr Beccalli-Falco suggested, is to

help small and medium-size enterprises bridge the gap between patents and production. Excessive protection can hinder this transition, he said, mentioning generic drugs as a classic case.

CW/HEC-AD

Back to top

Book launch: African Economic Outlook

- **Colm Foy,** Head, Publications/Media, Development Centre, OECD
- **Celine Kauffmann**, Economist / Policy Analyst, Investment Division, Financial and Enterprise Affairs, OECD
- **Javier Santiso**, Deputy Director, Development Centre, OECD
- **Henri-Bernard Solignac-Lecomte**, Head,Policy Dialogue/Outreach, Development Centre, OECD
- **Lucia Wegner**, Economist, Development Policy Analysis, OECD

Although there has been progress in African development, the continent remains "marginalised and fragile in trade and foreign direct investment". This was a key message in the launch of the 6th edition of the African Economic Outlook by the OECD at its Annual International Forum in Paris. This 600-page annual publication gives an overall perspective of the economic and social developments currently taking place in 31 African countries, and has become a reference for those involved in African economic development, including political decision makers. The report was first launched in 2001 and is produced under the joint expertise of the OECD Development Centre and the African Development Bank. Each year, the Outlook focuses on a specific issue with the Access to Drinking Water and Sanitation taking priority in the 2007 edition.

The combination of a strong demand for raw materials from Africa and its improved macro-economic policies has enabled the continent to perform satisfactorily for the 4th year in row, said **Lucia Wegner**, an OECD economist, to start the book launch. .

High prices in raw materials, particularly oil and certain metals have contributed hugely to the growth rates of several African countries. In fact, Angola has managed to double oil production in recent years and it is estimated that African oil exports should undergo a sharp 50% increase by 2010. Uganda and Mozambique have even surpassed the growth rates of several OPEC countries, while African importing countries have also enjoyed respectable performances over the past five years. High metal prices of copper, platinum and aluminium have underpinned Zambia's economic improvement and are continuing to boost the economies of numerous African countries. Effective macro-economic policies including inflation control and more political stability through democratic elections have also bolstered public trust in Africa's governments. Corruption remains widespread but measures are being taken to fight it in most countries. An Anti-Corruption Commission has been established in Nigeria, for instance. This initiative, which "names and shames" by publishing a list of the most corrupt individuals in the country, has helped to promote transparency and confidence among Nigerian business leaders.

Many challenges still face Africa and few countries have achieved any of the Millennium Development Goals. Ensuring that resources are invested wisely in areas such as health, education and infrastructure should help to ensure long-term development. Ms. Wegner also suggested that integrating Africa into the global market via multilateral trade agreements would require developing a strategic approach whereby revenues from oil and metal resources are invested in improving infrastructure; and using aid as a catalyst for development and not just for immediate issues.

The OECD's **Celine Kauffmann** focused on the central theme of this year's African Economic Outlook: Access to Drinking Water and Sanitation. The report assesses current policies and outlines the efforts required to increase access to safe and clean water.

In summary, the report defines six key points:
• Demand-side management programmes to control water use, devise incentives and campaigns to encourage water conservation.
• The participation of all stakeholders, from communities to regional partners to improve efficiency and avoid conflict.
• Effective coordination of the sector and the harmonisation of stakeholder actions, following the Sector Wide Approach to Planning (SWAP) in Uganda for instance.
• Strengthen local water management, such as has been done in South Africa via a partnership between the Government Agency TCTA and a local water provider, Umgeni Water.

• Mechanisms to monitor progress, set guidelines and extend the provision of services to consumers.
• Stepping up efforts to promote sanitation and wastewater treatment, particularly in densely populated settlements, thereby avoiding health problems and obstacles to further progress in expanding water coverage.

Adequate financing is clearly crucial to address these issues. The African Development Bank predicts that investment amounting to $25 billion will be required before 2025 with sanitation improvements absorbing up to a third of this amount.

The report's authors also advise integrating small operators into the water distribution and management process in a bid to empower local agencies and enhance efforts aimed at facilitating greater access to safe and clean water. Moving forward will depend on ambitious reforms in institutions, legal frameworks and policies that will facilitate the provision of clean water and improved sanitation in Africa.

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Back to top

Current Realities

Energy Security

- *Moderator*: **Peter Kemp**, Editorial Director, Energy Intelligence
- **Thierry Desmarest**, Chairman, Total
- **Frederic Jenny**, Judge, Cour de Cassation, France and Chairman, OECD Competition Law and Policy Committee
- **Stanley Reed**, London Bureau Chief, BusinessWeek, United States
- **Daigee Shaw**, President, Chung-Hua Institution for Economic Research, ChineseTaipei

Worldwide demand for oil and gas is growing steadily whereas global production is difficult to maintain to its current level. Therefore, energy security is a crucial issue for all countries. Participants focused mainly on production and the different factors that could influence its level, while questions from the public focused on worldwide demand for oil and gas.

Concerns over energy security could be redefined as concerns over "energy insecurity," according to **PeterKemp**, who moderated the session on energy security. There are serious concerns over growing needs, ruptures in supply due to the increasing physical distances from energy sources, nationalisation and political instability. Moreover, the demand for oil and gas continues to increase, but against declining production. According to the International Energy Agency, 87 million barrels are consumed each day and this figure should reach 116 million by 2030. Global production cannot keep pace with this demand: for each barrel added to international oil reserves, three are consumed.

In addition to this widening gap between supply and demand, underlined by Peter Kemp in his introduction,**Stanley Reed** emphasised the difficulties experienced by producing countries. Projections that Saudi Arabia would surpass its current production of 1-12 million barrels per day to reach a quota of 15-20 million barrels per day have been largely abandoned. Lack of qualified personnel and technology are blamed. When it comes to Saudi Arabia, production is pushed to its limit given limited human resources. In Brunei, one may have to wait up to a year for a new drilling pipe".

Finally, the recent trend toward nationalisation is a cloud on the horizon. With the current high price of oil, many of these countries are eager to renegotiate the terms of contracts signed with foreign companies. These governments may roll back contracts granted to foreign exploiters, which threatens production. Countries like Iran and Venezuela are currently experiencing a drop in production levels because of crippled development. Mr Reed feared that Russia too might soon succumb to this "oil nationalism."

Thierry Desmarest, chairman of Total, insisted on the crucial role of private actors. The five majors today account for 12% of production and 25% of the funds invested to develop new prospecting and extracting techniques. "Private companies are the only players able to develop the exploitation of the most challenging oil fields such as oil sand in Canada or oil fields in deep sea. They are the only ones who know how to exploit those fields in a profitable way." The high price of the crude oil makes it attractive for major players to invest on those unconventional sources.

In addition to private investments, **Frederic Jenny** pointed out that market mechanisms could also close the gap between supply and demand. He gave the UK as an example, where a 5% decrease in the national gas production resulted in an increase in gas prices on the local market. As a consequence, domestic demand decreased and adapted to national production. On the other hand, in Sweden, a sudden and temporary drop in national production did not provoke any automatic reaction in domestic demand, because the Swedes are used to paying their gas bill on a yearly basis, whereas many others pay monthly. Those two cases seem to support Mr Jenny's opinion that "market mechanisms are a key factor in energy security". That also means putting an end to monopolies. "Security lies in diversity and diversity only" insisted Mr Jenny. Diversity could only be ensured if there were no monopoly on the electricity market, gas distribution and transport infrastructures. Indeed, why would a new producer develop if he is not sure that his gas will be distributed because of a monopoly on transport infrastructures?

Finally, **Daigee Shaw** evoked renewable energies as a solution to energy shortages and a way to limit CO2 emissions. However, he warned against becoming over-enthusiastic about renewable energy.

"The apparent 'free lunch' of renewable energy, especially crop-based ethanol and bio-diesel, cannot satisfy our appetite for energy resources, and this energy will not be free, nor will it be environmentally friendly" he said, emphasising that we must distinguish between gross and net energy use in renewable energy production. For instance, the manufacturing and use of one ton of bio-diesel from palm oil manufactured in South Asia resulted in the emission of 33 tons of carbon into the atmosphere, ten times more than a ton of crude, an unhappy equation. He flatly stated that "the production of bio-fuel was a waste of energy." This must be taken into account when designing new policies.

All the speakers agreed that an increase in the supply of energy is possible but it will never be enough. The rise in demand needs to be tackled as soon as possible. Mr Desmarest proposed limiting the use of fossil fuel for transport and chemistry. Mr Jenny insisted on market mechanisms to curb demand in times of shortage. Messrs Shaw and Reed, chimed with many questioners from the audience who cast the light on global warming and on the importance of the Kyoto protocol and other incentives to reduce oil and gas use and reliance.

LT/HEC-RP

Back to top

Towards Smart Institutions

Innovation for Growth and Competitiveness

- *Moderator*: **John Gapper**, Associate Editor, *Financial Times*
- **John Dryden**, Deputy Director, Science, Technology and Industry, OECD
- **Pierre Liautaud**, Vice-President, Western Europe Region, Microsoft EMEA (Europe, Middle East and Africa)
- **Stefan Oschmann**, President, Europe, Middle East, Africa, Canada (EMAC), Merck
- **Bernard Ramanantsoa**, Dean, HEC, France
- **Lena Westerlund**, Senior International Economist, Swedish Trade Union Confederation

"Innovation" is something that everybody wants more of, noted **John Gapper** in his opening remarks, but nobody is too sure about what it means exactly. Yet innovation may mean change or disruption, and it affects the whole of society. In Europe, the will to innovate comes from two sources: "a European envy of America" and its economic success, and the fear of countries such as China or India, which can produce the same products cheaper and faster. So how can innovation be stimulated? Should it be the government, the market, or the relationship between both public and private sectors that make innovation a reality?

In a context of globalisation, argues **Bernard Ramanantsoa**, competitiveness is always relative, so we must accept that there are both winners and losers. While society has a duty to take care of the losers, it must also focus on promoting success through innovation. Mr Ramanantsoa put the stress on two key success factors for European countries: innovation in products and processes, and entrepreneurship. The HEC dean underlined the real difficulty of encouraging true entrepreneurship: that is, the willingness to take risks for oneself, rather than on behalf of others. He cited the example of how students from even the best business school choose to work for banks and multinationals, seeking security with high wages, rather than exposing themselves to the risks of setting up on their own. Mr Ramanantsoa cited the importance for academic institutions of being international – "which means attracting the best teachers, the best students, and working with the best firms" – and investing massively in research. Society must strive to protect education, and to ensure the equality of access to the top universities. However, in answering questions from the floor, Mr Ramanantsoa acknowledged that "innovating education" is also a matter for universities themselves to deal with.

Speaking as both an industry leader and as a father of five children, Pierre Liautaud does not just see innovation as technology improvement and a key to economic growth, but as a way to guarantee a sustainable future. Microsoft is particularly interested in the benefits of innovation because it works with many middle-sized companies which rely on innovation. So it seems essential to provide those companies with both capacity and "intangible assets": information and knowledge. He highlights two opportunities for European innovation and capacity improvement. First, public private partnership with more funding of R&D, and second, partnership between institutions. Intellectual property should be considered "an incentive system", whereby innovators should obtain a return on investment. Europe should develop a pro-IP policy, Mr Liautaud suggests, to simplify the procedures for patents, and fight piracy.

OECD expert John Dryden also went beyond technology to define innovation as the introduction of new products, processes and business models. The factors that have increased the importance of innovation are: globalisation and the advance of technologies such as information, and bio- and nano-technologies. So how can OECD countries improve innovation performance, asks Mr Dryden. Innovation has so far impacted manufactured goods. But services now account for 70% of economic output, so innovation should address services more decidedly.

Investment has become much more focused on intangibles, mainly R&D, software, education and intellectual property rights. Finally, Mr Dryden argued, innovation will help face major challenges such as climate change, energy, and health care. This is why the OECD was rolling out a broad innovation strategy. On the input side, there should be more investment in R&D; on the demand side,

governments should foster the open environments for innovative products and help create an "innovation-friendly business environment".
Stefan Oschmann underlines the issues facing governments in OECD countries: while they foster healthcare research, they also tighten healthcare budgets and depress revenues for pharmaceutical companies. Mr Oschmann applauded the fact that Europe has gained momentum in protecting intellectual property and in creating an innovative business environment. In fact, the regulatory environment has been harmonised, thanks to centralised drug approval procedures and a single patent submission for all EU countries. However, Mr Oschmann advocates further harmonisation with the US and Japan. He also lamented the fact that, compared to the US, the EU market still remains fragmented in terms of drug evaluation and pricing, which slows down the introduction of new drugs and increases the cost of diffusion for companies. European patients are more rapidly aware of new medicine introductions, but governments try to limit the access to them because of their cost. Assessing new drug introductions, government agencies increasingly qualify them as "incremental or limitative" compared to established patents. According to Mr Oschmann, this attitude is "anti-innovative" and "undermines the value of patents".

Lena Westerlund chose a different tack, by challenging the widespread idea that highly competitive economies are necessarily unequal. "Several countries, such as Denmark and Sweden, with low wage inequality, high taxes and strong collective bargaining are frequently on the world's top competitiveness list". Ms Westerlund also highlighted the relationship between income inequality and educational systems as measured by literacy skills: some of the countries that have the best educational systems also show reduced social inequalities. Innovation is part of the equation. In particular, the Scandinavian model combines high growth, competitiveness and innovation. There is a strong need to create a culture of innovation: governments cannot change attitudes, but they can foster innovation by correcting market failures. In particular, they can create a security net for people who take risks, such as venture capitalists.

BMG/HEC-AD,ALF

Back to top

Whose Equity Comes First?

Globalisation and Equity

- *Moderator:* **Martine Durand**, Deputy-Director, Employment, Labour and Social Affairs, OECD
- **Juan Pablo de Laiglesia**, Secretary-General, Spanish agency for International Cooperation
- **Martin Hirsch**, President, Emmaüs, France
- **John Rother,** Group Executive Officer, Policy and Strategy, AARP
- **John J. Sweeney**, President, American Federation of Labor-Congress of Industrial Organizations (AFL-CIO)

The ambivalent effects of globalisation served as a starting point for this session on globalisation and equity. Statistical evidence points to the role of globalisation in raising living standards, encouraging investment and alleviating poverty. However, there is a growing feeling that these gains are not being equally shared, and that the process involves painful changes that need to be addressed.

Martin Hirsch's contribution provided an interesting insight from a non-governmental organisation. He pointed out the fact that associations like his own find themselves in an apparently paradoxical situation, in the sense that creating new jobs in the developing world goes against the interests of the people employed in low-skilled jobs in rich countries, which his organisation represents. For him, an answer to these conflicting interests might be found in conducting small scale experiments into schemes that could provide employment for those low-skilled individuals that might otherwise be claiming benefits, with a view to expanding these, if successful, to a wider scale.

Juan Pablo de Laiglesia's approach was more concerned with international co-operation and development aid. While underlining the positive consequences of the recent decisions taken on this subject by the OECD countries, he also emphasised the fact that, contrary to what had been promised, there hasn't been an increase in the resources devoted to development aid. A greater focus on the poorest countries has led to the neglect of middle-income countries. The consequences of this change of attitude shouldn't be underestimated, since middle-income countries represent 41% of the world's population. These countries have indeed reached certain levels of wealth and political stability, but this is precisely why their development is essential. They could serve as motors, as models for poorer countries and as partners in the context of "horizontal cooperation"; But they nonetheless have to be helped in their own development. Mr de Laiglesia therefore defined three aims that should be pursued: building stronger institutions that are able to create social cohesion and fight corruption, by establishing fiscal policies that will provide resources for redistribution, and finally developing technological education.

The emphasis on the necessity of public policies could also be found in **John Rother**'s speech whose function makes him a representative of those aged over 50 in the US. This category of people is one for which globalisation is more a source of anxiety than something they can benefit from. Today, both retirement security and health care are becoming increasingly costly, and there is a dangerous idea that competition between the generations over limited resources means that one generation can only benefit at the expense of another, for example by raising taxes to pay for retirement benefits. However, there are alternatives; workers could be enrolled in defined-contribution pension plans by default, creating savings vehicles for those without access to company plans, or providing tax credits to help low income employees pay for savings plans.

John Sweeney's focus was also on the US situation, underlining the fact that here again, globalisation has led to more inequality, having benefited only corporations rather than individuals and workers. It would therefore be dangerous to consider the US, the OECD country with the highest income inequality, as a model. The link between wages and productivity has been destroyed, therefore undermining social cohesion. This is the reason why governments have to intervene in order to ensure that fundamental workers' rights, as well as environmental standards, are respected and to promote access to education and training.

However as the moderator **Martine Durand** pointed out at the end of the conference, most of the proposed solutions are largely domestic in character, and one could question their applicability as solutions in a globalised world. One of the reproaches from the floor was that most of the speakers had

appeared very concerned about maintaining living standards in the OECD countries, with too little emphasis on encouraging development in poorer countries. In the questioner's view trade agreements should be re-focussed to the benefit of poorer countries, rather than the protection of rich-country jobs. Mr de Laiglesia tried to answer this by insisting on the need to use a multiplicity of tools in order to adapt to the diversity of national situations.

As for Mr Sweeney, he insisted on the importance of respecting our commitments to aid programs especially when it comes to debt forgiveness. Another worry was related to the recent outcome of the French elections, which the the participant worried would lead to the introduction of free market policies in France that he felt had failed to produce declines in inequality elsewhere. In reaction to this, all speakers agreed that there was no point in trying to turn the clock back; what had to be done rather was to try to let each country define its own strategy and develop better cooperation. Finally the question of workers' rights was raised by an Oxfam representative. A possible answer to this would be to use growing consumer awareness of working conditions in developing countries as a powerful marketing argument that western consumers should buy products only from suppliers with fair labour practices.

MS/HEC-SB

Back to top

New Orient Asians

Innovation and Equity in Asia-Pacific Region

- **Tor Tolstrup**, Commentator, *Moregenavisen Jyllands-Posten*, Denmark
- **Soumitra Dutta**, Dean of External Relations, INSEAD, France
- **John P.Hearn**, Vice-President, University of Sydney, Australia
- **Gyehyun Kwon**, Vice-President, Samsung Electronics Co. Ltd., Korea
- **Philippe Petit**, Deputy Director-General, World Intellectual Property Organization
- **Yen-Shiang Shih**, Deputy Minister, Minister of Economic Affairs, Chinese Taipei

"Innovation is paramount for sustained growth, broader equity and stability in the long run" moderator **Tor Tolstrup** reminded the audience at the start of this debate. The Asia Pacific Region is not an exception, although a lot still needs to be done. Currently under the global spotlight as they experience tremendous economic and social development, countries such as China and India are considered less as low value-added producers, but real players in global innovation. The huge effort in research and development (R&D), as well as an increasing share of high technology goods, undoubtedly testify to the key role of emerging Asian markets in innovation.

Australia, says **John Hearn**, aims to be "in the front line as an integral part of the brain, eyes and ears" of Asia-Pacific and the world. Nevertheless, to achieve its objectives, it will need to maintain and increase its enviable record in higher education and research; capitalise on its recent innovations like solar energy technologies or the Nobel Prize winning antibiotic treatment of duodenal and gastric ulcers. But competition is fierce and like the fast and flexible Kangaroo, Australia's national symbol, the country has to adapt its strategy to the global environment, but without overlooking what the key point for success is. For the professor and vice-president at the University of Sydney, that ingredient is equity. For that matter, "perhaps the E in OECD can evolve innovatively in future to integrate economic, education, environment and equity dimensions", Mr Hearn concluded.

Soumitra Dutta delivered the Silicon Valley secret for innovation: ideas, talent, and capital. This professor seemed confident in what is both a simple and "magic" triangle and illustrated his theory with three messages. First, dedicated to countries: capitalise on the "unique cultural competitor advantage", which consists in developing the " unique ability to take people from different parts of the world and make them feel at home," even if turning regions into hubs of talent, as in Singapore, is more difficult than it might seem. Second, to universities: an essential condition to compete at a global scale for top technical students would be to complete their knowledge with leadership, communication and organisation skills. Third, addressed to companies: Mr Dutta expressed the need to bring strong values, to narrow culture gaps and to build global mindsets within teams in order to solve the problem of integration and retain talent.

For **Gyehyun Kwon**, innovation is the main factor explaining the current success of Samsung. The company built its business model through a succession of crises. During the early 1990s, Samsung had to switch from a quantity to a quality business model. The Asian crisis in the late 1990s forced the company to reorganise itself further, embedding innovation into its business model. This turnaround entailed the training of employees and an increased number of research staff. The digital revolution pushed the traditional boundaries between public and private bodies. The integration of technological components such as cameras and MP3 players in a single device had shifted the business model of Samsung toward further value added production. Then, applying the concept "innovation is the key for endless economic growth", Samsung radically increased its patented innovations, to rank 2nd worldwide, behind IBM.

Philippe Petit argued that Asian countries are increasingly a "world innovative centre": the relative level of GDP dedicated to innovation has reached 3% in Korea, while China plans to reach 2.5% by 2020 and India 2% by 2012, WIPO's Mr Petit said. This trend is supported by newly established top-quality R&D centres and abundant human resources, and is reflected in a sharp rise in the number of international patented innovations. China increased its number of patents by 56% in 2006 and Korea surpassed France to rank 4th in the world for international patented innovations, behind the US, Japan and Germany. But the innovation process is not a uniform phenomenon across Asia, Mr Petit noted:

the education system does not systematically produce top quality engineers, and specialisation tends to occur in either products or services, but rarely in both at the same time. Finally, according to Mr Petit, the set-up of strong intellectual property rights is a condition of success for the development of these countries.

Yen-Shiang Shih highlighted the delay taken by Chinese Taipei in the innovation process and its negative impact on the country's growth, competitiveness and employment. As a consequence, Chinese Taipei implemented an innovation policy focusing on the IT industry, the latter being the "paramount engine" of the economy there. After a deep analysis of the different stages of the value chain, the island's companies have managed to concentrate their R&D efforts on the IT component design. A creative and dynamic social environment is the key to perpetuate an open innovation system, Dr Shih holds. This environment is created in Chinese Taipei through a high percentage of educated people, and the 80,000-strong cohort of Taiwanese researchers put the country among the top 15 innovative countries in the world. Looking to the future, Chinese Taipei aims to turn around its innovation processes to focus on soft economy and life style issues. This vision has already been embraced by the Taiwanese youth, thus setting the foundations for the society and economy of tomorrow.

BMG/HEC–MMT, JH

Back to top

From Patent Rights to Human Rights

Innovation and Access to Healthcare

- *Moderator:* **Jean-Marc Vittori**, Editorial Writer, *Les Echos*, France
- **Alan Bryden,** Secretary-General, International Organization for Standardization
- **Juan Pablo de Laiglesia**, Secretary-General, Spanish Agency for International Cooperation
- **Gonzalo Fanjul Suárez**, Head of Research, Intermón Oxfam, Spain
- **Thomas Wellauer,** Member of the Executive Committee, Head of Corporate Services, Novartis

A new "social contract" is needed if the world's poorest are to have fair access to health care. **Gonzalo Fanjul Suárez** denounced the exorbitant price of medication in developing countries and said that the production of generic drugs must be pursued vigorously. At the heart of the problem are intellectual property rights, in particular drug patents. The issues he saw as crucial to resolving the crisis include pricing, which for a new generation of drugs may cost 100 times more than current treatments. Mr. Suarez qualified "drugs" with the word "effective," for a glut of inferior, useless and even dangerous drugs can be bought on local markets. He reproached the WTO for overprotecting patent holders, noting that major pharmaceutical companies may earn profits up to four times higher than the world's 500 biggest companies. The bulk of these profits do not come from developing nations, but from the Western middle-class. In Latin America, for example, the use of prescription drugs is rising 20% per year on average thanks to a growing middle class. As its members suffer from illnesses characteristic of the West, research is devoted to curing obesity, heart disease, diabetes, even baldness. The shameful result is that diseases afflicting 90% of humanity, such as malaria, leprosy and sleeping sickness, are earmarked for a mere 10% of research. Contrary to popular belief, this disparity – known as the "10/90 disequilibrium" - affects not only the developing world: in developed nations, old people with limited incomes may be prescribed a generic brand of drug because it is cheaper, despite the fact that it may also be inferior. "We must find a mechanism," said Mr. Suarez, "to redress the balance between profit and need."

This situation is usually blamed on pharmaceutical companies. However, **Thomas Wellauer** defended the industry by saying first that 9 out of 10 drugs are developed by pharmaceuticals, not by governments, and that 95% of all medications listed by the WHO are not under patent. Pharmaceuticals are demonized, but they have driven innovation, and innovation has produced cures for tuberculosis and malaria; in two years time, he predicted, leprosy will have been eradicated. What people fail to appreciate is the degree of risk in the undertaking. Pharmaceutical companies have to guard against losses like any other firm, and require the assistance of governments and NGOs if they are to venture further into developing treatments for neglected diseases. Mr. Wellauer said that "Partnership, not philanthropy is needed." Pharmaceutical companies cannot do it alone.

Much of the discussion centered on the prohibitive cost of drugs and the need to shift research priorities. Yet**Alan Bryden** felt that while these issues were of major importance, their resolution would not end all difficulties. Another criterion of good health care is security. As Secretary-General of the ISO, his mission has been to assure that voluntary standards of good practice are disseminated and followed. To date, the ISO has established 16,000 internationally recognized standards. In the health sector, it has set standards for laboratories, clinics, drug producers and medical devices. The ISO has put in place a consensual framework for telemedicine (the use of communications and information technology to deliver clinical care) and the medical application of nanotechnology. For developing countries, instilling good practices helps to guarantee security and the effectiveness of the supply chain. Effectiveness, he felt, was essential to preventing disease, and to the overall health of the world's populations.

Juan Pablo de Laiglesia reacted strongly to Mr. Bryden's glowing list of technological innovations. While he admitted their importance, they seemed far removed from the daily tribulations of patients in the developing world. There, drug distribution is a more pressing concern; medicines are available, but getting them to patients can be next to impossible. The problem is not only one of research and fair pricing, but of infrastructure. As Secretary-General of the Spanish Agency for International Cooperation, he said his agency was pursuing the UN Millennium Development Goals, which include

fighting pandemics and improving health access in developing countries. Along with the other panelists, he agreed that fair pricing and the 10/90 disequilibrium remained enormous hurdles. New strategies were needed, and the public and private sectors must work more closely together. "Health is a human right," he said. Throughout ninety minutes of often passionate debate, this was one remark that invited no comment.

LT/HEC-YC, AF

Back to top

Open for World Business

Open Markets for Investment

- *Moderator*: **Françoise Crouigneau**, Chief International Editor, *Les Echos*, France
- **Agnès Bénassy-Quéré**, Director, CEPII, France
- **Luc Cortebeeck**, President, Belgian Christian Trade Union Confederation-CSC
- **Carolyn Ervin**, Director, Financial and Enterprise Affairs, OECD
- **Irina Kibina**, Vice-President Corporate Affairs and Investor Relations, Evraz
- **Christoph Matznetter**, Secretary of State, Federal Ministry of Finance, Austria
- **Hamish McRae**, Associate Editor, *The Independent*, UK

Moderator **Françoise Crouigneau** opened the discussion by highlighting the fact that government attitudes to direct investment can be ambivalent, with investments that create employment being welcomed, but not necessarily takeovers of domestic firms. This often leads to calls to protect strategic sectors, which in turn raises the question of how to define which sectors should be deemed strategic. Investment liberalisation has two faces, presenting both opportunities and threats.

Examining recent trends in capital flows, **Agnès Bénassy-Quéré** noted that there had been a huge increase in capital flows in recent years, but that much of this had been flowing in the "wrong" direction. Capital has flowed away from developing countries and towards the US to finance the huge US current account deficit. This is partly the result of a lack of adequate domestic investment vehicles in developing economies, with investors in those countries preferring to place their savings in the more liquid, better regulated markets of the developed world. In many respects, capital outflows from developing countries are a reflection of institutional failings. Developing country financial systems often suffer from inadequate supervision, weak legal systems, a lack of competition and other failings that reduce their attractiveness to domestic investors. This suggests that measures to strengthen financial systems in the developing world are necessary, and that such improvements could lead to a virtuous circle of rising inward investment, increasing incomes, and further strengthening of domestic financial systems.

Christopher Matznetter, in contrast, focussed primarily on the domestic equality issues induced by globalisation. He pointed out that his own country, Austria, had embraced this process of change, with some of country's largest firms now being controlled by foreign owners and Austrian firms investing heavily abroad. He noted that even though such liberalisation had had an unambiguously positive effect on national income, it was evident in Austria that there have been clear winners and losers. While returns on capital have continued to increase apace, wages have stagnated, thus resulting in a significant reduction in labour's share of national income. Mr Matznetter argued that government's primary aim should not be simply to increase national income, but rather to improve living standards. While assistance from bodies such as the EU adjustment fund helped particularly afflicted industries, he argued that in a wider sense such initiatives were insufficient. In addition he proposed a raft of initiatives including increasing corporate tax, strengthening labour's rights and increasing the protection offered by the welfare state, in order to honour the precept that "the winners must compensate the losers". Moreover, he noted that such "corporate solidarity" initiatives would do much to mollify rising protectionist sentiment across continental Europe.

Luc Cortebeeck continued this theme, arguing that it was not just "investment for investment's sake" that was required, but rather "socially responsible investment" that bore fruit for those towards the bottom end of the income distribution. For this he asserted that a purely laisser-faire approach was insufficient and that instead government intervention was required to set a floor under labour standards. He argued that the OECD guidelines on multinational enterprises were a critical step in achieving this, given that they are the result of negotiations between a wide variety of stakeholders. Noting that voluntary codes of corporate social responsibility are limited in their effectiveness, Mr Cortebeeck stressed the need for governments to enforce proper labour standards, and to introduce more binding rules on the activities of investors, including hedge funds and private equity funds. He also believed that the proliferation of guidelines produced by the OECD, the IMF, the World Bank and the ILO prevented the development of a common international standard.

Irina Kabina, in contrast, wished to assert the lack of a universal culture of corporate governance. She lamented the misguided preconception dominant in the OECD countries that it possessed a monopoly on "best practice" in corporate governance and corporate social responsibility. She called instead for the development of global practices that combined approaches from corporate cultures around the world. She also expressed her concern at the often critical attitude of the press in many OECD countries to Russian, Ukrainian and Chinese businesses. She maintained that such companies had made great strides in developing their business practices and that recognition of such success would prove more beneficial than engaging in indiscriminate censure, which was highly destructive to the companies' morale and hence stymied the desire for future action. Finally, she argued against the concern prevailing in the west about the recent high level of Russian corporate investments in OECD markets, contending that this was merely the logical result of resource-based firms seeking to boost their returns by integrating vertically and tapping into mature markets.

Hamish McRae emphasised the immense scale of globalisation, asserting that we were experiencing the "early stages of the greatest political and economic story of our lives". He argued that such a process was seeing the reversal of the shift in economic power caused by the Industrial Revolution, with the rise of the BRIC countries signalling a seminal shift of the global balance of political, economic and cultural power away from the developed economies. Yet he pointed out that not all western countries have lost out, citing the enthusiastic embrace of globalisation by the UK, with London positioned at the centre of the global flow of capital. This has resulted in a huge overall rise in the average standard of living for UK citizens. Yet even in the UK he agreed that the strains of globalisation were being felt due to the increased inflow of migrants and the strain placed on public finances by the need to protect the disadvantaged. Finally he cited three key question marks for the ongoing development of the global economy: the ongoing shift from public markets to private equity as being the most important conduit of capital flows, the potential effects of future recession given the common consensus that we are over halfway through the current economic cycle, and rising protectionist sentiment in the developed world.

Carolyn Ervin agreed that the problems with globalisation highlighted by other members, notably poor institutional quality, the issues regarding corporate responsibility and the rising spectre of protectionism, were very real. Yet she argued that the OECD was uniquely positioned to provide guidance on such issues, given the wide-ranging multilateral dialogue it undertook within its group of 30 members as well as its extensive consultations with other countries. She highlighted three key beneficial initiatives: the development of corporate governance, corporate and social responsibility and investment policy guidelines. Moreover, she emphasised the positive OECD finding that the most beneficial approach for countries to attract investment was to develop strong institutions as most multinational firms preferred investment environments to be similar to those in their home countries. She argued that such a finding demonstrated that the fear of a "race to the bottom", as countries reduced labour protection to remain globally competitive, was unfounded. Finally, she noted that the OECD still had no answers to two difficult issues. The first concern involved the declining share of national income attributed to labour, which she believed involved each domestic government making different choices according to their beliefs. The second matter was related to the rise of state-owned enterprises as a dominant source of capital flows, given the large pools of capital that had formed most notably in China, the Middle East and Russia, and the strategic issues that this implied for countries who are the recipients of such inward investment.

MS/HEC-IM

Back to top