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Towards an “orderly” liberalisation

Keynote speech: Overview

- **Moderator**: **Françoise Crouïgneau**, Chief International Editor, Les Echos, France
- **Stanley Fischer**, Governor, Bank of Israel

Stanley Fischer, Governor of the Bank of Israel, focused his keynote speech on financial globalisation, and more specifically on capital account liberalisation, leaving no doubt as to where he stands on the issue: “I, as an economist, believe that the case for the free movement of capital is the same as that for goods”.

Mr Fischer recalled how the Asian crisis in 1997 dealt a severe blow to the case for capital account liberalisation, but suggested that the lessons had now been learned and that pegged exchange rates are seen to have been a critical contributing factor: “flexible exchange rates take away a major risk factor…and I do not necessarily mean fully floating…but if pressure rises, countries can let their exchange rates adjust without it being interpreted as a complete change in economic policy”.

Mr Fischer also stressed the importance of transparency, for both financial markets and policy makers. One of the most salient consequences of the Asian crisis, however, was that none of the affected countries actually abandoned the international financial system.

Mr Fischer went on to outline guidelines for “orderly” liberalisation: sound monetary and fiscal policies should be in place; capital inflows should be liberalised before outflows; direct investment before portfolio investment; long-term flows before short-term flows; and, in terms of sectors, liberalisation should be permitted first for business, second for individuals, and third for finance.

According to Mr Fischer, capital account liberalisation changes the mentality of everybody in the economy: “people begin to think that the world is their stage”. However, Mr Fischer also acknowledged the risks inherent in liberalisation, and the uncertainties generated by the rapid development of new, and often poorly understood, financial instruments such as derivatives, whose face value is now ten times global GDP, and which US investor Warren Buffet has described as “instruments of financial mass destruction”.

While Mr Fischer played down these fears, and stressed how derivatives can improve the allocation of risk, he did not dismiss them entirely. The second main concern is the emergence of major global imbalances – “nobody realised that most capital inflows would go the US – but, again, Mr Fischer expressed his confidence that these imbalances can be corrected gradually and relatively painlessly.

Back to top

Quality qualifications

Access to education

- **Moderator: Ali Dogramaci**, Rector, Bilkent University, Turkey
- **John Bangs**, Assistant Secretary, Education & Equal Opportunities, National Union of Teachers, United Kingdom
- **Georges Haddad**, Director, Division of Higher Education, UNESCO
- **Bernard Hugonnier**, Deputy Director of the Education Directorate, OECD
- **Vernon Johnson**, Senior Vice President, Educational Development, Whitney International University System, United States
- **Dina Kawar**, Ambassador, Jordanian Embassy to France
- **Wusheng Zhang**, President of Tianjin Academy of Education Science, China

"When it comes to education nowadays, the question is no longer whether or not entire societies should have access, but what kind of education that should be." So opened moderator **Ali Dogramaci's** Tuesday morning panel on access to education.

Teacher training is one of the best ways to improve the quality of education, panellists agreed. When it comes to implementing improvements in teaching quality, governments should not consider teacher unions as defensive organisations hostile to change, but rather bodies to be courted as partners because of their enormous capacity to implement improvements. As a representative of such a union, Britain's **John Bangs** insisted that teachers are likely to accept initiatives intended to improve students' performance, especially if they are based on the principle of equity.

Mr Bangs says that the OECD's record on international education assessment is highly respected by teachers for just this reason. One of the elements he considers essential to schooling systems today is to promote diversity. But diversity in teaching faculty cannot come at the cost of draining talent away from developing countries. "In the Commonwealth," Mr Bangs said, "we brokered an agreement between countries to prevent the richer countries from poaching much-needed teachers from developing members."

Georges Haddad brought up one of the fundamental questions in today's education debate: "is education a public good or a commercial good? And if it is, to some extent, a commercial good, just how far does the public portion extend - to the primary level, to the secondary level?" Mr Haddad said that any approach to improving education on a global level requires a mixed approach, one that is adapted to the specific political, economic, and cultural situation of a given country. He considers education as a fundamental right, and cites former EU Commission president, Jacques Delors, who proposed the idea of an "education credit" as everyone's fundamental birthright.

But education alone does not guarantee success in life. Mr Haddad said that in the years ahead, governments will be challenged to focus their attention not only on producing students who succeed in terms of educational criteria, but also in terms of personal achievement. The ability to accompany students from education to the first steps in a successful working life should be the goal of all serious educational systems.

Vernon Johnson agreed, but argued that this task was often undervalued by some governments for ideological reasons. Education is treated as a question of efficiency: the global challenge is to educate a vast population at a reasonable price. Another limiting factor is that many education systems are too poorly aligned with the changing labour market demands in a given country.

A proponent of results-based teacher assessments, Mr Johnson recommended improving education systems from two angles: Adapting education budgets to emphasise the specific demands of the labour market in specific countries, and training and instructing teachers to use scientifically proven methods. Bad teachers can seriously reduce a student's chance to succeed and education systems must take this into account. Mr Johnson said that teachers should use proven effective methods only - anything else should be seen as malpractice. Teacher assessments must be linked to the results of their students, and methods must be applied consistently. However, curriculum and schedules should still be able to adapt to different needs, Mr Johnson felt.

In Jordan, some of the successes over the past 20 years can be used as an example to other countries. "We're a poor country with few natural resource, -so we've emphasised our human resources," said **Dina Kawar**. Since primary education became mandatory, 99% of children now attend school, and pre-school will soon become part of this mandatory education. Women have been establishing themselves in the professions, too, although they still only make up 12% of the active workforce.

Ms Kawar said that after the years of emphasising the medical profession in Jordan, the government now wants to concentrate on the knowledge economy. "We too, plan to focus on success, by both upgrading the quality of our curriculum and increasing vocation training programmes." Decentralising education is important: Ms Kawar said she is always impressed when she visits computer education centres in the desert, which even nomadic Bedouin attend.

Assessment systems are key for improving standards and harmonising quality ratings, and China has been using such a programme since 1994. **Wusheng Zhang** noted that 8,500 institutes for skill assessment have since been set up around China, covering 2,000 kinds of jobs. "By the end of 2002, more than 5 million people have passed through the system, which has five different levels and focuses on three sectors: the food industry, manufacturing, and social services." Bi-lateral cooperation in the vocational training system has taken place with Germany, the UK, Korea, Japan and Canada.

To sum up, the OECD's **Bernard Hugonnier** repeated the panel consensus: access to education is not enough: quality also counts. Successful education consists of access and involves giving everyone the chances they need to obtain good results at every level of education. This, Mr Hugonnier said, sums up the principle of equity.

Back to top

Ideas that prosper

Innovation and economic growth

- **Moderator: Jean-Marc Vittori**, Editorial Writer, *Les Echos*, France
- **John P. Hearn**, Vice President, University of Sydney, Australia
- **Hamish McRae**, Associate Editor, *The Independent*, United Kingdom
- **Karien van Gennip**, Minister for Foreign Trade, Netherlands
- **Grey Fairfield Warner**, Senior Vice President for Latin America, Merck & Co. Inc.

“We still don’t know much about innovation” said moderator **Jean-Marc Vittori**, editorial writer at *Les Echos*, a French business daily, in his opening remarks to the panel, “and we are unsure about its exact relationship with R&D investment”. What we do know is that the leading innovators tend to enjoy both the strongest growth in productivity and prosperity. How will globalisation affect this, asks Mr Vittori, and how can countries protect their innovation and production in this new global arena?

“No single innovation can sustain economic growth” remarked **Grey Fairfield Warner**, Senior Vice President for Latin America, Merck & Co. Inc, “but no economy can compete and grow without innovation”. Bringing a corporate perspective to the debate, and one from the highly-innovative pharmaceuticals sector, Mr Fairfield Warner, stressed the importance of economic clusters in the innovation process, such as those in San Diego, Atlanta, Wichita, Pittsburgh and the so-called “Research Triangle” in the Raleigh/Durham area of North Carolina. Clusters provide three essential insights: first, that innovation and development occur at the regional and local level, not national level; second, most successful clusters have the best institutions of collaboration between the private sector, government and research universities; and third, regions that do not depend upon low wages and tax incentives to compete, but instead on innovation, have the best rack record of creating growth and prosperity.

John P. Hearn, vice president, University of Sydney, used the analogy of one of the country’s national symbols, the kangaroo, to stress that countries must stay fast and adaptive if they are to prosper in today’s world. From its privileged position in one the most dynamic regions in the world, Asia-Pacific, and in a country with strong network links with the UK and US, Australia has, says Mr Hearn, made R&D a priority: “there are many niche areas to exploit and, as the French say, *vive la difference*”. But the key to innovation and success in the future, stresses Mr Hearn, is “clever people” who understand society. And while calls for more focus in hard sciences are understandable, Mr Hearn insists that a good broad humanities background is also essential for the uptake and application of innovation. “We need to create flexible people”.

Hamish McRae, of *The Independent* in the UK, picked up the phrase “clever people” and suggested that the nature of innovation is now undergoing a fundamental change. “Old innovation “, said Mr McRae, tended to be the product of collaboration between firms and universities – so-called “centres of learning” – and the main challenge was how to get ideas out into the marketplace. Now, in parallel with this established innovation path, is “new innovation”. The trouble is, Mr McRae remarks, we do not always know where it is going to spring from. Mr McRae cites two examples: Google, which is a case of high-tech innovation and the product of “clever mathematicians”; and pre-paid mobile phone cards, a low-tech innovation that emerged unexpectedly in Italy but has had a huge global economic impact. Many key innovations in the future will come from the self-employed, and many from developing countries, not the OECD or the G7. In many respects the key to innovation has become simpler – "clever people" – but developing innovation policies has become more complex. The question national policymakers must ask themselves, concludes Mr McRae, is "how do we become a magnet for talent?"

Karien van Gennip, a minister in the Dutch government, recalled that at last year's conference she had defended globalisation as a force of good; now she wanted to stress that the full benefits of globalisation would be forthcoming only if countries played by the rules. Ms van Gennip argued that the way for governments to mitigate any negative effects of globalisation is not to subsidise loss-making industries, but to create more flexible labour markets. Education was key too: "it is not life-long jobs but life-long learning that will create prosperity." For Ms van Gennip, innovation and globalisation are two sides of the same coin: "they depend on and stimulate each other …but on one condition: if we all play by the rules".

Above all, this means respecting intellectual property rights, but according to the minister, it also entails combating child labour and eliminating protectionism and artificial market barriers. Ms van Gennip was categorical on this point: "Businesses won't innovate if there is no guarantee that their R&D will be protected". Summing up, Ms van Gennip added her own spin to a quote from Albert Einstein, who once said that "if you do what you always did, you get what you always got". For the Dutch minister, "in today's world you get less if you do what you always did".

A lively debate ensued among the panellists, in response to several pointed questions from the audience. On the role of basic research versus market-led innovation, Mr McRae stressed that "old innovation" would not disappear, and would continue to play a fundamental role alongside "new innovation". However, Mr McRae warned that Europe would still have to improve the "catastrophic" state of its university system. Mr Hearn added that innovation comes from increasingly unpredictable sources, and cited the example of important recent micro-bacterial advances derived from the milk of wallabies.

Development was also raised, and several of the panellists agreed that exceptional innovative talent in developing countries often goes unnoticed, and ways must be found to channel this innovation into the economy. Mr Fairfield Warner added that some institutions that are taken for granted in the developed world are often missing in the developing countries. .

A debate about the effectiveness and fairness of protecting intellectual property rights was more divisive. Some panellists insisted that without strong protection businesses would simply stop innovating; others, such as Mr McRae, wondered if we are not moving to a world "where stealing is normal". There is a shift in power to developing countries, and for Mr McRae, it is not clear whether intellectual property rights will really be able to be enforced in the future. However, the Dutch minister, Ms van Gennip, pointed out, many complaints about intellectual piracy are now coming from Chinese firms about other Chinese firms, and suggested that domestic pressure would eventually lead to enforcement of IPR there.

Back to top

Tools and rules for capital

Financial markets and growth

- **Moderator: John Thornhill**, Editor, European Edition, *Financial Times*
- **Kenneth V. Georgetti**, President, Canadian Labour Congress
- **Inge Kaul**, Special Policy Adviser, Office of Development Studies, UNDP
- **Huguette Labelle**, Chair, Transparency International
- **Marc Litzler**, Deputy CEO, Calyon

Financial markets are important for development, but they need to be balanced by oversight and good regulation: these opening remarks by Moderator **John Thornhill** set the tone of the discussion from this panel. Volatility in many equity markets around the world as well as increased public attention on a range of areas from pensions to corporate fraud made this a particularly timely session.

The first lead speaker, **Marc Litzler**, highlighted the role of international market operators in managing financial imbalances. Over the past two years the rapid growth in exports from Asia has contributed to powerful deflationary forces that have helped to keep long-term interest rates down, despite rising short-term rates. Moreover, the recycling of their current account surpluses has provided the capital to finance the US savings imbalance that fuelled its substantial current account deficit. This further helped to keep long-term interest rates low. The fact that these imbalances did not cause more severe economic problems was largely due to the important intermediary role of international financial markets, Mr Litzler argued. Financial markets have always acted as intermediaries, bringing together people with surplus capital and those with a need for capital or other differing interests, but this process has increasingly graduated from one governed largely by national rules to an international arena. That means more sophisticated products and more complex arrangements, he said. This increased sophistication of financial markets has added greater flexibility, adding to the ability of the financial system to self-correct after unanticipated disturbances or shocks.

Transparency International's **Huguette Labelle**, agreed that financial markets could promote growth, but insisted that people should be concerned not just with growth itself, but with the extent to which growth is equitable, and benefits those in developing as well as developed countries. The World Bank estimates that around $1 trillion is spent each year on bribes, and that a comparable amount of money is laundered. Most of this money must pass through the financial system, Ms Labelle believes, meaning that institutions are in a strong position to police these financial flows, and to prevent such corruption from becoming a barrier to equitable growth. Financial companies have to be more vigilant to avoid assisting fraudsters or corrupt regimes and organisations in developing countries.

There has been some progress to date via conventions sponsored by the OECD, the IMF, and other bodies aimed at tightening controls on corruption and allowing international efforts to recoup funds shifted offshore illegally. But more could be done, Ms Labelle continued, saying that the market itself is not self-correcting in this regard, and requires some assistance. The trouble is, as she put it, "when the invisible hand wreaks havoc, it is difficult to find an invisible wrist to slap". There is therefore a need for new or more sophisticated regulation. Voluntary compliance and improved corporate citizenship of the type the OECD encourages are positive steps, she said, but in the end it is strong and intelligent regulation that is required.

Inge Kaul, from UNDP echoed the view that well-developed and adequately regulated financial markets can make a positive contribution to growth, but emphasised the growing importance of risk management. The demand for less volatile, more balanced globalisation has encouraged a search for innovative risk management instruments, some of which are geared towards assisting developing countries. Though mostly still at an experimental stage, Ms Kaul nonetheless ventured some concrete examples.

The first group of these instruments, dubbed "macro securities" by Ms Kaul, would include the likes of sovereign government bonds indexed to GDP or the price of a developing country's major export. This would allow investors to benefit when the economy was performing well, or when export prices were buoyant, but would reduce debt servicing costs during a downturn or export price slump. Compared with normal bonds with fixed payment terms, securities indexed in this way would smooth the path of developing country debt repayments. UNDP estimates suggest that the benefits of such instruments to developing countries could amount to US$30 billion per year, or US$600 billion over the typical life of such instruments.

Other innovative instruments described by Ms Kaul, though probably yielding smaller gains, include securities backed by promises to deliver foreign aid. Some OECD governments are coming together to jointly back issuance of debt to finance investment in development-related activities. Under these arrangements, participating governments are held accountable by the financial markets for making good on commitments to provide foreign aid in the future. The benefit for the recipient country is that the desired investment can be undertaken immediately. In addition, measures to improve developing countries' access to financial markets could also have significant benefits, for example, by allowing them to insure against catastrophic events, collapses in commodity prices and so on. One example is the UN World Food Programme, which recently took out a weather insurance contract on behalf of Ethiopia.

Labour leader **Kenneth Georgetti** was less upbeat. He cited the example of Long Term Capital Management as a failure of the regulatory system, and noted that the brunt of financial crises is mostly felt by ordinary people via the labour market. Mr Georgetti argued that market performance should be measured against its impact on the economy as a whole, particularly in view of the increasing weight of financial firms in the economy. While on the plus side, financial markets have helped to stimulate investment, there have also been a number of "bubbles" that have been followed by crashes. In Mr Georgetti's view, markets do not rationally allocate capital to their most efficient uses, not least because of short-termism and a "herd" mentality among financial operators who simply followed the market up or down.

Moreover, the increased use of stock options in executive pay packages has significantly raised the share of corporate profits going to senior managers, leaving less for investment and wages, Mr Georgetti observed. Widening income inequality has been partly the result of market pressure to maximise short-term profits, and mergers and acquisitions activity has too often been geared towards boosting profits at the expense of long-term performance. Mr Georgetti believes that regulatory changes and tax measures are required, aimed at stimulating long-term shareholding and promoting the welfare of workers. Properly managed pension funds, for example, could exert pressure on companies to look after workers' interests and discourage short-termism.

Calyon's Mr Litzler responded to this view by pointing out that within the financial sector the development businesses already required a long-term focus, because of the need for substantial internal investments in systems and personnel which take many years to come to fruition.

Commenting on the new types of financial instrument discussed by Ms Kaul, Mr Litzler noted that in the beginning such instruments would be relatively illiquid and investors would require high margins to compensate for this, but that over time margins could fall as liquidity rose. Ms Kaul noted that OECD countries could assist in helping to build confidence and liquidity in such instruments, for example, by taking the lead in issuing GDP linked bonds.

Prompted by a comment from the floor regarding a new code aimed at eliminating corrupt practices related to export credit agreements, Mr Thornhill asked whether some areas of the financial markets were currently escaping oversight, and what measures needed to be taken to make the system flexible enough to cover changing circumstances. Mr Litzler responded that oversight was already an obligation for the banks in developed countries, and that corruption-monitoring practices were already very resilient. Ms Labelle agreed that the system was resilient, but added that existing codes of conduct need to become entrenched as normal practice by management and personnel in order to be fully effective. Mr Georgetti warned that there is a need for greater shareholder scrutiny, and saw a role for institutions such as the OECD in harmonising regulations.

In questions from the floor, one participant asked what role the financial markets could play in the potentially huge investments required in water and other infrastructure systems in the rapidly-expanding cities of the developing world. Ms Kaul noted that there were many options for raising finance, including some of the new financial instruments she had outlined earlier. Mr Litzler added that existing financial markets had the capacity to fund the necessary investments, and that there was plenty of capital available. Ms Labelle was less optimistic about capital availability, noting that the poorest developing countries lacked the ability to service the required levels of debt. For Mr Georgetti, the best way to finance infrastructure investment was via the public sector, which faces lower interest charges and no requirement to earn a profit. But Ms Kaul countered that financing projects of this scale through taxation was not a realistic option for many countries, so private funds would probably also be required.

Summing up the session, the moderator noted that regulation of financial market activity is extremely important, and that the consistency of regulation was a key factor. Using an analogy provided by an old fencing instructor of his, Mr Thornhill likened regulation to holding a bird in your hand: loose enough to avoid crushing the bird, but tight enough to prevent it from flying away.

Back to top

A new age?

China: Governing for development

- **Moderator: Vivienne Walt**, Reporter, *Time Magazine*, United States
- **Dominique de Boisseson**, Chairman and CEO, Alcatel China Investment Co. Ltd
- **Ying Chen**, Deputy Director-General, China Enterprise Confederation
- **Sheri Xiaoyi Liao**, President, Global Village of Beijing, China
- **José de Sales Marques,** President, Institute of European Studies, Macau
- **Yves-Thibault de Silguy**, Senior Executive Vice-President of International Relations, SUEZ.

With China's age-old civilization a permanent backdrop to this policy debate, painting a clear picture of the future was never going to be easy. The European panelists chose to put the emphasis on joining up the economic numbers, whereas the Chinese participants were at ease dealing with the more abstract, yet vital, philosophical issues before them.

The economic data told a dazzling story in terms of growth and output, but were less helpful in giving a full assessment of the governance aspects of the challenge faced by the world's most dramatic economic success story of recent years.

Moderator **Vivienne Walt** egged the speakers into sticking to eight minutes for their opening presentation, which may have thrown some of them off their stroke in terms of delivering a balanced view as they saw it.
Dominique de Boisseson chairman of Alcatel China, and active in the European Union's Chamber of Commerce in Shanghai, said European companies in China were the key drivers behind surging EU-China trade relations. In 2004, the EU became China's largest trading partner and China became the EU's second largest.

In December 2005, China entered the fifth and final year of implementation of its WTO commitments. Mr de Boisseson commented that looking beyond those commitments to the practical issues, concerns remain surrounding the replacement of trade barriers (not permitted under WTO rules) with more subtle barriers. He cited China's own efforts to promote the protection of Intellectual Property Rights (IPR), with the result that Chinese companies are becoming more aware of the dangers and threats of excessive counterfeiting even by domestic rivals. Nevertheless, a recent EU Chamber survey revealed that more than half the respondents believed that the enforcement of IPR laws and regulations in China is still not effective enough. Also, a broad section of European companies expressed serious concern about the disclosure of confidential know-how and sensitive commercial information.

The next speaker, **Ying Chen**, Deputy Director-general of the China Enterprise Confederation, seemed confident that the government was moving in the right direction. She insisted that all societies pursued the goal of building a fair, stable and harmonious society according to their own model. Chinese culture had developed a number of ideologies about balance, some well known. Over the past three decades China had made huge strides, but now it was necessary to find a new point of balance.

China had chosen socialism as its basic system, and a key ideal was that no person would live in poverty in the country. The Chinese government sought to build an harmonious society and at the same time meeting new requirements for reform and development. Such a society, Ms Ying Chen said, brought democracy and the rule of law, equity and justice, compliance and brotherliness, vitality and energy, stability and order and a harmonious coexistence between man and nature. Among the concrete goals in the latest five-year plan was a 20% reduction in energy consumption, for instance.

Sheri Xiaoy Liao, president of the Global Village of Beijing, a leading Chinese NGO, was more critical about the challenges ahead. Seven of the world's ten most polluted cities were in China, she pointed out, while China was the second largest CO2 emitter after the United States. The Chinese government was now aiming to set up a "green partnership" between government, businesses and NGOs. The goal was "harmony between people, society and nature", measured by a "green GDP" indicator. A great deal was at stake given that 20% of the world's population lived in China, and therefore China's choices would be defining for the future of humanity as a whole.

Yves-Thibault de Silguy, senior executive vice-president of international relations for SUEZ, emphasised his company`s role in providing water supplies for 11 million Chinese people. He stressed that policy development involved the setting up of partnerships with cities and major communities. In this respect, one of Suez's most successful partnerships had been in existence for 20 years, and stood as a model for this kind of approach.

The former EU commissioner said that China's quickening rate of urbanisation would considerably increase the country's needs regarding the environment and energy sectors. In 2004 there was an energy shortfall of 20-30 GW, though the situation was currently improving. Demographic pressures were endangering the country's environmental equilibrium, and as regards water supply, the current consumption level of 2,500 m3 per inhabitant, was only one quarter of the world average, with very uneven levels of supply distribution.

Mr de Silguy reported that the Chinese government was aware of the scale of the problem, and for the first time had included goals for durable development and the protection of the environment in its 11th five-year plan. Notable among the objectives set is the reduction of energy consumption by 20% in relation to the country's GDP by 2010. The Suez executive said his company's experience made it a natural long-term partner to invest in the boosting of China's water supply. China also needed to keep up its current efforts to harmonise the country's laws and regulations with recognised international norms.

The last speaker, **José de Sales Marquez**, a former mayor of Macau, said that for 27 years China had been growing at an annual average rate of 9.5%. The country now faced many major changes. One of the biggest challenges was the need to absorb annually 25 million people seeking work in order to keep the employment rate at a stable level. Other major problems included enforcing legislation, which was often misunderstood, even by local authorities. Also, a confusing range of different practices imposed by different authorities, brought major difficulties. He mentioned widely dissimilar transportation taxes, which were economically very disruptive, like different wage levels for identical jobs in different areas.

Mr Marques said the need to unify the internal market should be a major priority, and noted that China's growth and emergence as an economic power was certainly a challenge for the world as a whole, but it was equally so for the Chinese themselves. The Chinese needed help in finding ways to tackle such issues, he concluded.

From the floor, participants expressed a range of concerns. These included fears of a growing gap between winners and losers in Chinese society. A journalist enquired about changes in Chinese mentalities, and was assured by the former mayor of Macau that the biggest changes were to be observed in politicians' attitudes as they tried to keep up with a rapidly evolving culture. "They have to be adaptable, like surfers, in order to stay on top," he said.

In some cases questioners showed they had differing perceptions of Chinese policies and actions. A Kenyan official from the floor paid tribute to the generosity and appropriateness of Chinese development aid, especially for infrastructure projects, contrasting its efficiency with what he called less attractive aid offers bankrolled by OECD countries. (This question was also discussed in an earlier session on equity aid (see Investment for Development, Monday session 22 May)). A question from another participant showed that she felt the Chinese did not have the real needs of the aid recipients in mind, and supplied both capital and labour in their projects, leaving no share for the local economy.

Back to top

Is wisdom economically viable?

Wisdom and Governance

- **Moderator: Francis Mathieu,** Chairman of Club e-reflexion
- **Samuel Rouvillois**, Philosopher, Member of Club e-reflexion and Speaker at Davos
- **Marc Odendall**, Founder of Saint-Honoré Micro-Finance
- **Christian de Boisredon**, Founder of the association Reporters d'Espoirs (Reporters of Hope), France

"Putting 1 or 2% of your assets into microfinance is a good investment" says **Marc Odendall**, who knows his subject. Co-founder of Crédit Suisse First Boston France, he went on to become General Manager of Merrill Lynch Capital Markets France before joining Deutsche Morgan Grenfell France. Currently serving on the boards of several humanitarian organisations, he kicked off the discussion, "Wisdom and governance", organised by Club e-reflexion and focusing on the theme of microfinance - an area rich in learning opportunities.

Mr. Odendall considers that man cannot truly be put at the heart of the economy by perpetuating a relationship of dependency, but by putting both parties on an equal footing. "Saint-Honoré Micro-Finance is a 'funds fund' that invests in 15 to 20 underlying portfolios, which in turn have stakes in 200 to 300 microfinance banks, and that enables a giver-receiver relationship to evolve into a relationship between two commercial partners, the lender and the borrower. Whilst microfinance is not a money-spinner," he cautions, "the returns are far from insignificant, contributing to development and allowing lending to continue". He also reiterated that the system is reliable: in 98% of cases the loans are in fact paid back.

Christian de Boisredon also agreed that microfinance had many advantages, but he deplored the public's lack of information about this type of initiative. As co-founder of Reporters d'Espoirs, he is amazed that "microfinance has been available for the last 30 years – it was introduced in India by Mohammed Yunus in 1978 – but most of the public has heard about it only very recently". This is surprising for an activity that enables entire families to provide for themselves, and that has created more than 30,000 jobs to date. Microfinance isn't the only issue that lacks media coverage. How many of us have heard of India's Doctor V., who managed to cut the cost of treating a cataract from 350 to 5 US dollars through clever industrial streamlining? Or of Spirulina, the one-celled algae of exceptional nutritive value which some developing countries are starting to grow? The question Mr. de Boisredon asks is "Why have our all-powerful media not identified and reported these positive initiatives?" The raison d'être behind Reporters d'Espoirs is to offset this deficiency by spotlighting such initiatives and encouraging the mass media to do likewise.

Samuel Rouvillois, a philosopher, monk of the community of Saint Jean and regular participant in the Davos forum, has endeavoured to "portray these initiatives, which promote responsibility and foster relations of solidarity, in the light of what transpires in the world of business". Our society is undergoing a colossal re-think due to what Mr. Rouvillois calls "the depression created by the need to consume". Globalisation is handicapped by its inability to function apart from creating needs. These positive initiatives in themselves are not enough to turn the tide without a radical change in attitude towards them. We could make do with wanting to "incorporate them into our social model, which is increasingly money-oriented and less and less people-oriented", but this would entail the risk of over-simplification, and ultimately a “neo-colonialist” approach. In his view, “We need to change our spectacles to understand the reasoning behind them”.

“What characterises these positive approaches is that they foster dignity, solidarity and the existence of truly human networks. Our social model relies more on rational thinking than on people, but rationality does not always rhyme with wisdom. The key to wisdom in matters of governance is vulnerability. Today, we want to eliminate vulnerability and control all the risks. An individual has no choice but to adapt to the structures imposed or to remain on the sidelines. Creativity, however, is born of weakness and hardship. Only by taking this into account can we really foster creativity and thus individual responsibility and fulfilment”. When it comes down to it, perhaps such wisdom is in fact the only form of truly sustainable investment.

Back to top

Alive, Alive, Doha!

Doha Development Agenda

- **Moderator: Liz Alderman**, Business Editor, *The International Herald Tribune*
- **Ingrid Antonijevic**, Minister of Economy, Development and Reconstruction, Chile
- **Phil Goff**, Minister for Trade, New Zealand
- **Jennifer A. Hillman,** Commissioner, United States International Trade Commission
- **Mukhisa Kituyi**, Minister of Trade and Industry, Kenya
- **Pascal Lamy**, Director-General, World Trade Organization
- **Paula Lehtomäki**, Minister for Foreign Trade and Development, Finland
- **Néstor Stancanelli**, Deputy Secretary, International Economic Negotiations, Argentina
- **Mark Vaile**, Deputy Prime Minister, Minister for Trade, Australia

This high-level political panel discussed how to clear the way for completing the Doha trade talks on time by the end of 2006.

Moderator **Liz Alderman** had launched the discussion by asking: can the Doha Development Agenda talks be saved? Referring to the media view, she wondered if the postponement of talks in April 2006 "hadn't driven the last nail in the coffin" of the round. With several political factors coming into play this year and next, December's scheduled talks in Hong Kong-China would surely be the last realistic window for progress to be made, Ms Alderman suggested.

Everyone agreed that the stakes are huge, but another question about realism had to be raised: are Doha's goals too ambitious? Ms Alderman asked if perhaps the "single undertaking" principles weren't too risky, as according to them failure to make progress on agriculture, for example, would block progress in other trade areas in this all-or-nothing approach.

Kick-starting the Doha round back to life will require a major and deliberate effort by negotiators if world agriculture is to bring benefits to the developing world, panellists agreed. Argentina's **Néstor Stancanelli** likened the current situation to a joke he had once heard: A farmer buys a donkey, but worried that it might refuse to work, he consults a priest. The priest says that if the donkey refuses to work, simply pray to God and the problem will be solved. When the donkey one day refuses to pull the plough, the farmer consults his priest, who hastily comes to the field and prays before the donkey. Still, it refuses to move. After going through his rosaries, the priest rolls up the sleeve of his cassock, and gives the donkey a thump. Suddenly, the donkey ploughs ahead. "Sometimes," says the priest, "God needs a little help, too."

Mr Stancanelli's observations were less about future theoretical gains from a successful trade round which are so often trotted out in these discussions, than about restoring lost ones. He pointed out that in the 1970s net imports of agricultural products into the OECD represented over 15% of total trade, but just over 4% in 2004. If import penetration to the OECD were only to return to the 1970 levels, this alone would have a hugely beneficial impact on developing countries, he said. However, politics was the issue, for while "protectionism and subsidies are responsible", he did not see the leadership for structural adjustment forthcoming in some key trading partners.

Why are the talks proving so difficult, asked **Pascal Lamy**, Director-General of the WTO? "Some say it's because there are no business interests involved. Others say the media is problematic, or they blame the single undertaking principle, or they point their fingers at the fact that the NGOs don't like it." But Mr Lamy insisted that talks were difficult for other reasons: "they have a high level of ambition…they would bring deeper, larger, and fairer results," he said, laying out the keywords he would focus on.

Mr Lamy said that results would be deeper because of the effective cuts into global tariffs and subsidies in both manufacturing and agriculture: 60 – 70% for tariffs, while subsidies would be reduced by half of their current levels. Results would also be larger, he said, because Doha addresses new topics, and negotiations would be breaking new ground on areas like trade facilitation and fisheries subsidies – both of which have enormous impacts on trade. Finally, results from successful talks in Hong Kong-China would also be fairer, he said, because new ratios would be established between developed and developing countries, which would mean more flexibility. Mr Lamy also said that he supported the "aid for trade" scheme as an essential way to move forward. Each of the facets alone could be considered ambitions. And the three put together will require an enormous amount of political traction. But Mr Lamy asserts that it is feasible.

Australia's **Mark Vaile** spoke frankly, too. Yes, Doha was at risk, though yes, it could be saved. "Trade in agriculture is about 50 years behind the trade agenda: there is no longer any reason to differentiate agriculture from goods and services," the minister said. "Trade Ministers are the biggest optimists I know," he said, "and what gives us confidence now is the very fact that we're still talking. As a minister, he feels that negotiations must succeed this year, given the current trends in politics and protectionism. "From my experience, the WTO only makes decisions when the pressure is really applied. So we need to keep the lid on the pressure cooker and keep the heat turned up over the next few months", Mr Vaile insisted.To energise and invoke the needed commitment, he said that all parties involved must remind themselves of the prize: a global GDP boost of $300 billion. The gains were geared in favour of developing countries, but all countries would be worse off if the WTO talks failed, he warned. At the same time, every country must realise that concessions are called for, and that means more market access for the developed countries, too. He pointed to India as an example of a country taking a lead by making concessions in services.

For **Ingrid Antonijevic** of Chile, like Argentina, a non-OECD guest at the Forum, responded to the view that the benefits for developing countries from Doha, while less in dollar terms, would spell an enormous jump ahead for poorer societies. Ms Antonijevic still felt that the current international trade system was skewed too far in favour of wealthy countries. Exports from developing countries still face enormous preventative barriers that block the oft-cited comparative advantages developing countries hold in agriculture, for instance. The burden in a trade deal should not be placed equally, she said–those countries with the highest barriers should make the most concessions. While the system needed changing, Ms Antonijevic defended the WTO, saying that as an institution, it remains unsurpassed for advancing fair trade, thanks to its voting system that allots each country a single vote.

Kenya's **Mukhisa Kituyi** feared that what is now called the Doha round of talks has strayed from its original goals, and he called for a redefinition of the aims. "At the end of the day we will have improved a lot from 2001; but compare the results with the promise of Doha and they are not very successful", Kenya's trade minister said. The talks were no longer about development, in his view. Progress cannot be made in this context unless real, concrete measures are taken in OECD countries to give more on agriculture. Mr Kituyi was worried about crowding out investment, too, and cited the "deindustrialisation" of Kenya, as what once were factories were being replace by warehouses filled with imported goods. However, Mr Kituyi did want to see the talks to keep to time. Deadline in trade talks, he said, were also important to keep, as softening them amounts to an endless backlogging of issues that some developing countries see as important.

Even with a successful outcome in December, all parties involved in talks must realise that there will be winners and losers. **Jennifer Hillman**, from the US, said that mechanisms must be put in place to assure that the countries which stand to lose – like Bangladesh, which could see shrinking in agriculture and industry as a result of negotiations–are looked after. But the list of these countries should be kept short, and the aid they receive increased. She agreed that ambition should be kept high in the talks, because the more liberalised the agriculture markets become, the higher the rewards for developing countries. The full liberalisation scenario, she said, would mean a $90 billion increase for them out of the total $300 billion gain, whereas a less ambitious scenario would see their part of the deal sag to $17 out of $100 billion.

Ms Hillman also said that more efforts should be focused on trade facilitation. Intra-regional trade in particular needed to function better, "but it is not advancing in Africa or Latin America." Products arriving in Hamburg can be shipped to Berlin in a day, but heavy customs procedures in some African countries fro instance meant that a similar delivery could take months.

Trade liberalisation however is not a panacea, **Phil Goff** of New Zealand reminded the panel. Good outcomes depend also on governments managing structural adjustment, maintaining social cohesion and supporting communities and individuals who may face adverse effects. This is not always easy to do, but Mr. Goff said that the benefits of good management of domestic reform paid off for New Zealand over time–even if it may have cost him his seat as a minister at the time. "By the early 1980s we were one of the most heavily regulated, subsidised and protected countries in the world, all of which simply contributed to our economic and social decline. By the late 1980s, we had become one of the most open market economies," he said. "We know that opening up markets, done the right way, is positive for countries. Individual countries have benefited from open market economies. China and Eastern Europe offer clear examples." Obtaining positive results at the next round of talks, he said, means countries should not lose sight of the basic reasons we they are negotiating. "Our goal is to provide producers in developed and developing countries alike with new opportunities to trade and prosper and deliver benefits to consumers."

Finland's **Paula Lehtomäki** defended the right of every country to maintain domestic agriculture production and insisted that, having undertaken an important recent reform of its common agricultural policy (CAP), the EU seemed unenthusiastic about countenancing further reform as part of a Doha trade deal. Nonetheless, Ms Lehtomäki warned of the grave consequences of a failure to secure an agreement in the Doha round, and recommended that "we should all look in the mirror, and not demand more than we are prepared to give". Ms Lehtomäki concluded by underlining her government's strong support for the aid-for-trade initiative.

Back to top

Oiling reform

Regional integration and development in the Middle East

Moderator: Güven Sak, Economic Policy Research Institute, Turkey
Rainer Geiger, Deputy Director, Financial and Enterprise Affairs, OECD.
Bassma Kodmani, Director, Arab Reform Initiative, France.
Johannes F. Linn, Wolfensohn Initiative, Brookings Institution, United States.
Yasuhisa Shiozaki, Senior Vice-Minister for Foreign Affairs, Japan.
El Sayed Torky, Advisor to the Minister's Office for International Relations, Ministry of Investment, Egypt.

The first lead speaker, **Yasuhisa Shiozaki**, Japan's Senior Vice-Minister for Foreign Affairs, opened the discussion with an overview of the general approach being taken under a joint initiative to promote regional integration and development between the OECD and the countries of the Middle East and North Africa (MENA), a programme strongly supported by the Japanese government. Mr Shiozaki noted that the two wheels of this initiative are encouraging investment and improving public governance.

Investment plays a key role not only in boosting economic activity, but also in transferring new technologies and expertise to the benefit of the host country. But given the cautious nature of private investors, attracting capital requires legal predictability, political stability, fair competition and the availability of adequate and appropriate human resources. In this respect, improving public governance is a key challenge.

Rainer Geiger, from the OECD, went on to provide more details of the MENA/OECD initiative, noting that the project aims at matching capital with investment opportunities, developing the region's infrastructure and mobilising foreign direct investment (FDI). A parallel initiative for "Good Governance for Development" aims to achieve improvements in public governance as a major element in fostering a positive climate for investment. Mr Geiger stressed the need for transparency and predictability of national policies, laws, regulations, administrative practices and statistics affecting foreign and domestic investment. Private sector investment has been identified as one of the keys to the economic dynamism that many MENA countries are looking for. In the face of expanding populations, between 80 and 100 million new jobs are likely to be needed between now and 2020. Economic growth in the region has risen from 3.7% in the period 1998-2002 to 5.4% in 2005 and is forecast to remain stable at around 5.6% in 2006. But growth will need to rise to at least 6-7% per year to absorb new labour market entrants.

El Sayed Torky, Advisor to Egypt's Ministry of Investment, believes that there is significant scope for higher FDI in the region. He says that the region has lagged behind its potential in terms of attracting FDI partly because of a lack of co-operation and co-ordination in the region. Relations with multinational agencies, for example, have tended in the past to be bilateral on the MENA countries side. Foreign investors have been invited to become involved in advising on development, a step that should also encourage greater confidence in reforms. "The first step to finding a solution is to recognise that you have a problem", El Sayed Torky said. There is a need to change local attitudes among officials and bureaucrats towards foreign trade and investment, to create a more welcoming environment. Egypt has been organising workshops, some in conjunction with the OECD, to identify and outline the reforms that are necessary. It is hoped that this process will be extended to other MENA countries in due course.

Moderator **Güven Sak** commented that the Middle East's main problem is not resources but rather a lack of organisation and institutional efficiency. Under these circumstances it might be better to focus on smaller, local initiatives rather than trying to fix the big issues. In this respect, Mr Sak highlighted the attempts of the Turkish Union of Chambers of Commerce and Industry (TOBB-BIS), an OECD Forum sponsor, to promote the use of "business parks as centres of excellence" in the region as a means of getting around political barriers, including in the Palestinian territories, and creating the necessary groundwork for faster economic development.

In response, **Bassma Kodmani** of the Arab Reform Initiative, agreed that this approach of seeking specific local solutions to local problems could be helpful, and acknowledged that the dialogue on this was promising and may help to get around the political impasse between the Israel and the Palestinian Authority.

Political barriers are an obstacle to economic reform in the region, Ms Kodmani insisted. In fact, political reform was necessary to allow economic reforms, she said, and the question was how should political reform be approached in order to unblock development, and how much progress has been made to date in the MENA countries.

Ms Kodmani noted that there have in fact been significant administrative reforms in recent years that might almost be described as a revolution. These changes include constitutional reforms, amendments of electoral laws, and changes in education systems, including both technical changes imposed from above and greater demands for reform from below, with people becoming more assertive towards and demanding of their governments. In addition, business organisations and the media have also been behind calls for reform, as have local civil organisations. Elections in some countries where Islamist factions have gained the upper hand have caused concern outside the region, leading to the view that political reform could be dangerous. But Ms Kodmani argued that there are other political forces to counterbalance this. The Islamist parties are increasingly becoming civic organisations, more like western political parties, but need to accept further changes if they are to become viable mainstream political players. In this respect, she felt it might be preferable to accept and control their place in the political system, rather than encouraging radicalisation by trying to keep them out.

Johannes Linn from the Brookings Institution in the US, drew on experience in other regions of the world to make a number of points about the process of regional integration, a phenomenon that is happening rapidly elsewhere in the world but which has been slow to take hold in the MENA region. The gains from integration can be substantial, but the process is more complex than simple reform of trade policy. It is often more importantly about improving transport systems, reducing transport costs and, within countries, of measures to improve the business climate, administrative effectiveness and good governance. In addition, Mr Linn noted that regional and global integration are not mutually exclusive, but can be complementary. Regional integration can also drive domestic reforms and improvements in governance, as was the case with the central European countries that recently joined the EU: the incentive of membership helped to maintain the momentum of domestic reforms. But on the other hand, states that club together in a regional organisation of like-minded interests might retard progress on issues like governance and internal reform.

Integration on a political level appears unlikely to proceed rapidly in the MENA region, Mr Linn felt. Although there are many regional institutions, they tend to be relatively ineffective, with member countries generally putting national considerations ahead of regional ones. But economic integration could still proceed quite rapidly, as long as trade and investment barriers are minimised and conditions of security are maintained. Wider membership of institutions such as the WTO and closer affiliation with the EU could also help. There followed a flurry of questions from the audience. One participant asked how Turkey's accession to the EU might help regional integration, to which Mr Linn responded that it could spur change by providing a powerful example of the potential benefits of integration. Another participant asked for suggested approaches to dealing with the problems caused by concentration of political and economic power in countries richly endowed with natural resources, as these seem also to suffer from bad government. Mr Geiger believed this problem was diminishing. However, it is a challenge, for as Mr Linn noted, resource-rich countries have failed to deliver good government more often than other countries. The establishment of national oil funds in some countries has improved the situation in these cases, but in others there is still a pressing need for greater transparency.

Back to top