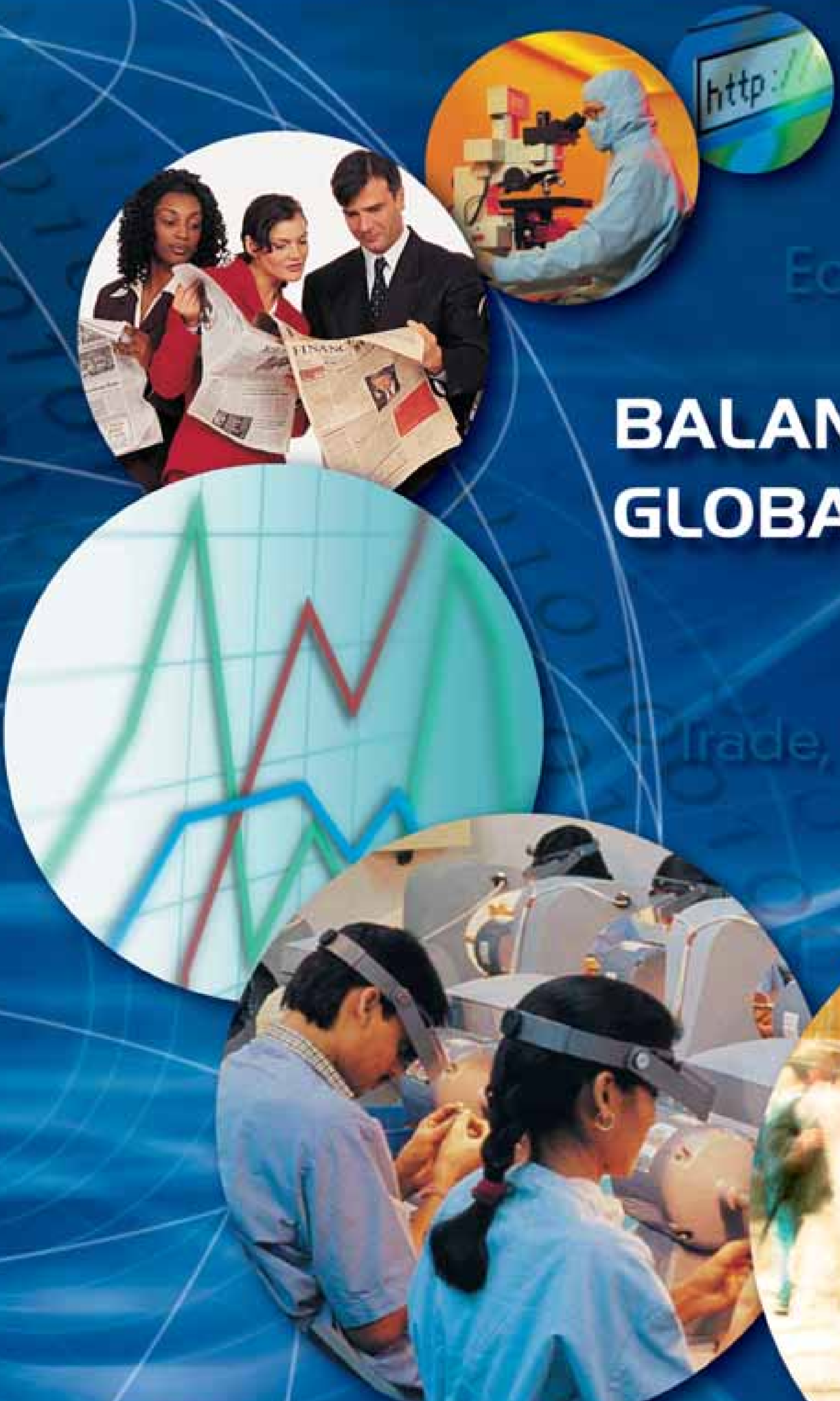
HIGHLIGHTS

OECD OCDE
FORUM 2006



Economy and finance

BALANCING GLOBALISATION

Trade, investment and development

Jobs

Observer oecd
SUPPLEMENT
SEPTEMBER 2006

22-23 May 2006
Centre de Conférences Internationales, Paris
www.oecd.org/forum2006

SPONSORS

OECD Forum 2006 offers excellent partnership opportunities.
For further information, contact:
Forum Partners Manager, Gwendoline Brucker, e-mail: gwendoline.brucker@oecd.org
Tel.: +33 (0)1 45 24 81 19

Table of Contents

Speakers

Tél. : +33 (0)1 45 24 82 00
Fax : +33 (0)1 44 30 63 46
sales@oecd.org

Published in English by the Organisation
for Economic Co-operation and Development

Les éditions de l'OCDE
2 rue André-Pascal
75775 Paris cedex 16, France
www.oecd.org

OECD FORUM MANAGER
John West
EDITORS
Rory Clarke, Sue Kendall, Ricardo Tejada, John West
EDITORIAL ASSISTANTS
Christine Clément, Aurélia Deuquet, Gráinne Mooney, Loïc Verdier
CONTRIBUTORS
Peter Gaskell, Brian McGarry, Michael Rowe, Michael Sykes, Sandra Wilson
LAYOUT
Vif Argent
PUBLICATION CO-ORDINATOR
Christine Clément
PHOTO EDITOR
Silvia Thompson
ASSISTANT PHOTO EDITOR
David Sterboul
PHOTOGRAPHERS
Hervé Bacquer
Bertrand Huet
Andrew Wheeler
WEB EDITION
Maggie Simmons
MARKETING DIRECTOR
Toby Green
LOGO AND DESIGN
OECD Publishing
PRINTING
OECD Publishing

- **Iordanis Aivazis**, CFO Hellenic Telecommunications Organization, Greece
- **Liz Alderman**, Business Editor, *International Herald Tribune*
- **George Alogoskoufis**, Minister of Economy and Finance, Greece
- **Ingrid Antonijevic**, Minister of Economy, Development and Reconstruction, Chile
- **John Bangs**, Assistant Secretary, Education and Equal Opportunities, National Union of Teachers, United Kingdom
- **Philippe Bénédic**, Resident Director General, Asian Development Bank
- **Jagdish Bhagwati**, Professor of Economics, Columbia University, United States
- **Luca de Biase**, Information Technology and Science Editor, *Il Sole 24 Ore*, Italy
- **Lorenzo Bini Smaghi**, Member of the Executive Board, European Central Bank
- **Christian de Boisredon**, Founder, Reporters of Hope, France
- **Dominique de Boisseson**, Chairman and CEO, China Investment Co. Ltd., Alcatel
- **Jocelyne Bourgon**, Ambassador, Delegation of Canada to the OECD
- **Chris W. Brooks**, Director, Public Affairs and Communications, OECD
- **Ying Chen**, Deputy Director-General, China Enterprise Confederation
- **Efthymios N. Christodoulou**, Chairman, Hellenic Petroleum, Greece
- **Gheorghe Copos**, Deputy Prime Minister, Romania
- **Jean-Philippe Cotis**, Chief Economist, OECD
- **Françoise Crouïgneau**, Chief International Editor, *Les Echos*, France
- **Dimitrios Daskalopoulos**, Chairman, Federation of Greek Industries
- **Patrick De Smedt**, Chairman, Microsoft Europe, Middle East and Africa
- **Padma Desai**, Director, Center for Transitional Economies, Columbia University, United States
- **Ali Dogramaci**, Rector, Bilkent University, Turkey
- **Dara Duguay**, Director, Financial Education Program, Citigroup, United States
- **David Eades**, Presenter, BBC World
- **Luis Eduardo Escobar**, Senior Advisor, Ministry of Finance, Chile
- **Gonzalo Fanjul Suárez**, Head of Research, Intermón Oxfam, Spain
- **David Feickert**, Consultant in Industrial Relations, Ergonomics and Energy, United Kingdom
- **Stanley Fischer**, Governor, Bank of Israel
- **Lionel Fontagné**, Director, Centre d'études prospectives et d'informations internationales, France
- **Rainer Geiger**, Deputy Director, Financial and Enterprise Affairs, OECD
- **Karien van Gennip**, Minister for Foreign Trade, Netherlands
- **Gerlando Genuardi**, Vice President, European Investment Bank
- **Kenneth V. Georgetti**, President, Canadian Labour Congress
- **Phil Goff**, Minister for Trade, New Zealand
- **Angel Gurría**, Secretary-General Designate, OECD
- **Georges Haddad**, Director, Division of Higher Education, UNESCO
- **Duck-soo Han**, Deputy Prime Minister, Minister of Finance and Economy, Korea
- **Michael Harcourt**, Chair, Prime Minister's External Advisory Committee on Cities and Communities, Canada
- **John P. Hearn**, Vice President, University of Sydney, Australia
- **Jennifer A. Hillman**, Commissioner, United States International Trade Commission
- **Margaret Hollinger**, Paris Bureau Chief, *Financial Times*

- **Bernard Hugonnier**, Deputy Director, Education, OECD
- **Vernon Johnson**, Senior Vice President, Educational Development, Whitney International University System, United States
- **Donald J. Johnston**, Secretary-General, OECD
- **Kostas Karamanlis**, Prime Minister, Greece
- **Inge Kaul**, Special Policy Adviser, Office of Development Studies, UNDP
- **Dina Kawar**, Ambassador, Jordanian Embassy to France
- **Fukunari Kimura**, Professor, Faculty of Economics, Keio University, Japan
- **Mukhisa Kituyi**, Minister of Trade and Industry, Kenya
- **David Knapp**, Senior Editor, Energy Intelligence Group, United States
- **William G. Knight**, Commissioner, Financial Consumer Agency of Canada
- **Chen-en Ko**, President, Chung-Hua Institute for Economic Research, Chinese Taipei
- **Bassma Kodmani**, Director, Arab Reform Initiative
- **Anne O. Krueger**, First Deputy Managing Director, IMF
- **Ulysses Kyriacopoulos**, Former Chairman, Federation of Greek Industries
- **Huguette Labelle**, Chair, Transparency International
- **Pascal Lamy**, Director-General, World Trade Organization
- **Paula Lehtomäki**, Minister for Foreign Trade and Development, Finland
- **Ana Isabel Leiva Diez**, State Secretary of Territorial Co-operation, Ministry of Public Administration, Spain
- **Sheri Xiaoyi Liao**, President, Global Village of Beijing, China
- **Johannes F. Linn**, Wolfensohn Initiative Executive Director, The Brookings Institution, United States
- **Marc Litzler**, Deputy CEO, Calyon
- **Giorgio Magistrelli**, Secretary-General, European Chamber of Commerce in China
- **Philippe Manière**, Director-General, Institut Montaigne, France
- **John P. Martin**, Director, Employment, Labour and Social Affairs, OECD
- **Francis Mathieu**, President, Club e-reflexion, France
- **Elliot E. Maxwell**, Chairman, eMaxwell and Associates, United States
- **Hamish McRae**, Associate Editor, *The Independent*, United Kingdom
- **Arnoud de Meyer**, Deputy Dean, INSEAD, France
- **John Monks**, General Secretary, European Trade Union Confederation
- **Michael Mozur**, Deputy Special Co-ordinator, Stability Pact for South Eastern Europe
- **Nicholas Nanopoulos**, CEO, Eurobank EFG, Greece
- **Basile J. Neiadas**, CEO, OPAP SA, Greece
- **Thomas C. Nelson**, Chief Operating Officer, AARP, United States
- **Marc Odendall**, Co-Founder, Saint-Honoré Micro-Finance, France
- **Didier Pourquery**, Editorial Director, *Metro*, France
- **Samuel Rouvillois**, Philosopher, Club e-reflexion, France
- **Alberto Ruiz-Gallardón**, Mayor, City of Madrid, Spain
- **Yazid Sabeg**, President of Board of Directors, CS Communication & Systèmes, France
- **Güven Sak**, Director, Economic Policy Research Institute, Turkey
- **José de Sales Marques**, President, Institute of European Studies, Macau
- **Yasuhisa Shiozaki**, Senior Vice Minister for Foreign Affairs, Japan
- **Yves-Thibault de Silguy**, Senior Executive Vice President of International Relations, SUEZ
- **Alison Smale**, Managing Editor, *International Herald Tribune*
- **Néstor Stancanelli**, Deputy Secretary, International Economic Negotiations, Argentina
- **John J. Sweeney**, President, American Federation of Labor-Congress of Industrial Organizations
- **Rachid Talbi El Alami**, Minister-Delegate to the Prime Minister, Morocco
- **John Thornhill**, Editor, European Edition, *Financial Times*
- **El Sayed Torky**, Advisor to the Minister's Office for International Relations, Ministry of Investment, Egypt
- **Jean-Claude Trichet**, President, European Central Bank
- **Mark Vaile**, Deputy Prime Minister, Minister for Trade, Australia
- **Jean-Marc Vittori**, Editorial Writer, *Les Echos*, France
- **Vivienne Walt**, Reporter, *Time*, United States
- **Michael P. Wareing**, CEO, KPMG International
- **Grey Fairfield Warner**, Senior Vice President for Latin America, Merck & Co. Inc.
- **Lord Alan Watson of Richmond**, Chairman Europe, Burson-Marsteller
- **Wusheng Zhang**, President, Tianjin Academy of Educational Science, China

Opening session: Balancing globalisation

A weighty subject

- *MODERATOR:* **DAVID EADES,** PRESENTER, BBC WORLD
- **GEORGE ALOGOSKOUFIS,** MINISTER OF ECONOMY AND FINANCE, GREECE
- **DUCK-SOO HAN,** DEPUTY PRIME MINISTER AND MINISTER OF FINANCE AND ECONOMY, KOREA
- **JOCELYNE BOURGON,** AMBASSADOR, DELEGATION OF CANADA TO THE OECD
- **DONALD J. JOHNSTON,** SECRETARY-GENERAL, OECD

"You cannot find a bigger, more complex and all-encompassing subject than that of balancing globalisation", said David Eades in his opening remarks. There are no simple answers to the challenges it poses either. In a light-hearted observation, he suggested a clue might be found in Douglas Adams' novel *The Hitchhiker's Guide to the Galaxy*, where the indecipherable answer to *Life, the Universe and Everything* was found to be the number 42. Despite the complexity and vastness of the topic, David Eades had no doubt that globalisation is essentially a positive force, but lamented that it has become a "dirty word", and suggested that it is the responsibility of everyone to push its beneficial aspects.

George Alogoskoufis made an opening address to the Forum, a condensed version of which is set out below.

There are some who perceive global economic integration as a threat, especially as regards socially sensitive issues such as job security and unemployment. They argue that the integration into the global economy of low-wage emerging market economies will lead to ever-increasing pressures on OECD countries, which in turn will have to undergo painful structural adjustment at home. As emerging market economies take a bigger share of world markets for goods and services, the brunt of competitive pressures is on labour-intensive sectors. One effect is the outsourcing of jobs to emerging market economies.

And there are others who perceive global economic integration as an opportunity for a more prosperous world. They argue that the positive effects of globalisation by far exceed the risks. Companies are able to stay competitive by improving productivity and expanding their activities. Consumers benefit from cheap labour-intensive goods from emerging economies. And as a result, overall, globalisation does not necessarily lead to lower real wages in OECD countries. Indeed, it can contribute to maintaining, or even increasing, the purchasing power of people in OECD countries. So the argument goes.

In both cases, however, global economic integration is a challenge. A challenge that, if carefully balanced, can provide the citizens of this world with more wealth, more opportunities and a more promising future. Indeed, balancing globalisation is a *sine qua non* condition for a better future for all of us. We can all observe the great imbalances that prevail in our world – among them fiscal, current account, and labour-market imbalances. Some of them are clearly not sustainable and will have to be addressed in an effective manner as soon as possible. The large external deficits of some countries, combined with the surpluses of their trade partners and of the oil-producing countries, can pose considerable risks to global economic stability. So, it is crucial that we do something about them.

Consequently, it is essential to implement policies that aim at increasing the growth potential of our economies and fighting unemployment and social exclusion in a framework of sustainable development. Focusing on sustainable fiscal discipline, a more business-friendly environment, the promotion of research and development and innovation, the modernisation of labour markets, and the enhancement of social cohesion is vital for the long-term outlook.

Most of us live in knowledge-based economies. Knowledge embodied in intellectual assets is becoming crucial for firms' and countries' economic performance and growth. We have to ensure that their beneficial effects are spread throughout the whole world economy, by safeguarding the balance between legal control and diffusion of knowledge at the same time.

Another topic that is of great interest to all of us is the rise in oil prices, which makes the issue of increased security of energy supply combined with environmental sustainability even more urgent to discuss and to resolve.

Regarding trade and the Doha Development Agenda (DDA) negotiations, we must ensure that they will be concluded successfully by the end of the year. A balanced and viable outcome in DDA is possible, providing prosperity to the global economy, but mainly to the less developed countries. Financial markets have developed into a crucial factor for global economic performance. Their function differs significantly across countries in view of size, structure, competition, and regulatory frameworks. We need to enhance effective competition, abolish existing barriers and safeguard protection of investors at the same time.

All these issues comprise a major challenge for the future course of the global economy. At all times, our aim should be to help the public understand and accept the necessary policy improvements. This requires political courage, commitment and the international coordination of policies. This is no time for complacency. We have to act in a steadfast manner in order to make this world a more prosperous place for its citizens.

In this context, the OECD itself has an important role to play. Our efforts to tackle problems and find viable solutions with the largest possible social consensus can lead

George Alogoskoufis

to even better results if we use the expertise of well-respected institutions such as the OECD. This may mean that the Organisation should both widen its scope and enhance its working relations with other countries around the world over the next years.

I am confident that in this year's Forum, the exchange of views and the flow of ideas will lead to a synthesis that will ultimately help us reach our target.

Extracts from Duck-soo Han's opening address are presented below.

We all know that we are living in an era of explosive trade expansion. Just as individuals can be better off trading with each other, the international trade of goods and services brings gains in efficiency for participating countries. But we do not stop here in integrating the world and enhancing efficiency. Not only the products themselves, but also the production factors are moving across national borders. Capital is now, more than ever, moving freely across countries to seek best returns. Even workers are prepared to choose a country where they can best show their own talent. These trends seem irreversible, regardless of the wishes of each individual nation.

We are all aware that active participation in globalisation has brought remarkable growth in China since the 1980s, and in India more recently. This simply means that over 40% of the world's population is being saved from poverty. Ireland has gracefully transformed itself from a small, forgotten country in Europe to a rich, advanced country through foreign direct investment.

Vietnam's rapid development via economic liberalisation and FDI also deserves our attention. One might ask the question: "Does globalisation promise prosperity everywhere"? My answer is yes, with the extent of prosperity depending on the internal adaptability of the nation. More importantly, I have yet to come across economic success without market

Donald J. Johnston and Angel Gurría

Jocelyne Bourgon and David Eades

liberalisation. A research result that I recently came across stated that the average growth rate of actively open economies was five times higher than that of closed economies.

Although history has repeatedly proved that globalisation brings economic prosperity with better opportunities, many people still resist and even fear it. This is primarily because the enhancement of efficiency resulting from globalisation is brought about by intensified competition among countries, firms and workers. This intensified competition operates as a factor that deepens the disparity between nations and individuals. In this sense, disparity might be an inevitable result of increased efficiency.

Nonetheless, if we fail to contain it at acceptable levels, a number of countries will continue to resist the trend of globalisation, putting the noble cause for the "better welfare of humankind" at peril. And those nations that opt for maintaining closed economies will lose out on opportunities to save their citizens from poverty, eventually finding it even more difficult to promote social integration.

Despite these concerns, I am confident that the benefits of globalisation outweigh the possible costs. As a representative of Korea, I dare to say that no Korean would want to go back to the economic conditions of a 1960s Korea. Our choice, then, should be clear. We had better actively participate in globalisation, rather than attempting to resist it.

At the same time, we must make every effort to minimise the cost of globalisation, while maximising its benefit. The labour market, for instance, needs to become more flexible in order to reap the benefits of globalisation. This, however, must be accompanied by efforts to promote the employability of workers and to minimise the victims of structural adjustment. Social safety nets should also be strengthened to protect those left behind and enhance social cohesion.

In the case of capital markets, cross-border transactions should become more liberalised so as to facilitate globalisation. Here again, prudential regulations and adequate monitoring must be in place so as to prevent any possible magnification of economic instability. We have learned from the Asian crisis that financial liberalisation without prudential regulations is potentially damaging.

Perhaps the best evidence of Korea's full commitment to opening was our response to the financial crisis that broke out in 1997. In spite of heightened criticism of liberalisation, we decided to further open our capital market, while substantially strengthening prudential regulations this time. And we overcame the crisis more successfully than any other crisis countries. Currently, the Korean government is making great efforts to establish more Free Trade Agreements with many countries including the US. Given the reliable track record of the Korean government regarding liberalisation, I expect the results to be successful.

While opening and liberalising the economy, we have never forgotten the importance of

David Eades, George Alogoskoufis and Duck-soo Han policies to protect those left behind. The portion dedicated to social support in our GDP has continued to increase. In particular, the Korean government substantially strengthened the social safety net in response to the crisis. Also, Korea is actively participating in the international community's commitment to reduce inter-nation disparity. Recognising that ODA was truly an important stepping stone for Korea to overcome poverty and leap to the next level, we aim to double our Official Development Assistance (ODA) by 2009.

ODA to Africa, in particular, will be tripled in line with President Roh Moo-hyun's "African Initiative" announced earlier this year. We are also transferring our technology and sharing information and knowledge to assist economic growth of lower income countries.

Here, I would like to remind you that "trade" can be more effective than "aid" in stimulating economic growth and development, as is suggested in the discussion of "Aid for Trade" in the international community. In line with this, I would like to highlight the importance of a timely and successful conclusion of the Doha Round negotiations. Therefore, we should play more proactive and leading roles in the negotiation process of the Round for our common benefit.

Opening panel press conference

Jocelyne Bourgon's introductory remarks are reported below.

This seventh edition of the OECD Forum is addressing the theme of balancing globalisation – balance among regions, balance among people, balance between developed and developing countries. What is balance? Balance is about the democratisation of globalisation, and I would argue we still have some distance to go.

George Alogoskoufis, Kostas Karamanlis, outgoing Secretary-General Donald J. Johnston and Secretary-General Designate Angel Gurría

A second aspect in our search for balance is about managing shared risks. Therefore, the search for balance must address the risks associated to emerging imbalances. Managing and reducing risk is a collective responsibility. Resolving imbalances means achieving a better global balance between savings, investments and consumption, and no one is mighty enough to do it alone, no country, no international organisation, no group of countries. And no one is small enough not to be able to make a contribution. But the longer we wait, the more we allow global imbalances to grow and the greater the risk, the risk of interrupting adjustment and the risk of inflicting useless pain around the world, on all citizens. We are, now, benefiting from favourable conditions. It is a time conducive for actions; it is a time conducive for coordinated actions.

A third aspect for our search for balance is also about a balanced policy agenda. All domestic policies are international policies and all policies are economic policies, whether we are talking about health, immigration, environment, agriculture or water management. All national policies are international policies, and all policies contribute to the economy. So a balanced policy agenda at the international level is one which achieves measurable progress, year after year, increasing productivity and reducing disparity, increasing efficiency and creating equity, increasing freedom in the market place and creating solidarity. It is not a choice between a standard of living and quality of life. It is both a high standard of living and quality of life.

A fourth aspect related to our search for balance is also about a balanced approach between market, state and civil society. If we have learned anything in the past 25 years, it should be that we need both a well-performing market economy and a well-performing society. And to achieve that we need market, state, and civil society contributing to the fullest. The market is the most efficient way of allocating scarce resources. The state is the most efficient way of creating common public good, and civil society is the most efficient way of creating shared value and a shared sense of community.

Donald J. Johnston offered the following observations.

First of all, why do we have an OECD Forum? Back in the late 1990s, just before I arrived at the OECD, the Organisation embarked upon a negotiation of a multilateral agreement on investment (MAI). This seemed a very logical thing to do. Someone had suggested: "Why do we not put some order in the international investment climate as we are trying to do with trade"? Well, many of you here will remember that negotiations were abandoned. I believe governments responded in part to the demands of civil society, which did not see the MAI as really contributing to balancing globalisation.

I put this failure down to a lack of communication. We have learned a lot since then, and when ministers met in the wake of the MAI, they encouraged the OECD to engage in a more active dialogue with all stakeholders, especially civil society. And one outcome was the creation of the OECD Forum.

The OECD Forum began in the year 2000, bringing out the stakeholders that are well represented here today. We have business, we have industry, we have academia, we have NGOs, we have politicians, we have bureaucrats, senior officials, and this is the ideal environment for the OECD to have a very important dialogue with all of these

stakeholders. That is also the reason why we hold it in conjunction with the annual Ministerial Council Meeting. I would say it has been a great success, I think it has moved forward very well and I believe it will continue to do so.

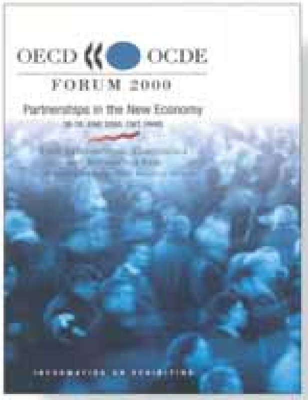
But what is the real challenge here? We have seen the immense benefits of globalisation. We have heard about this from our speakers. They are measurable and we have measured them at the OECD.

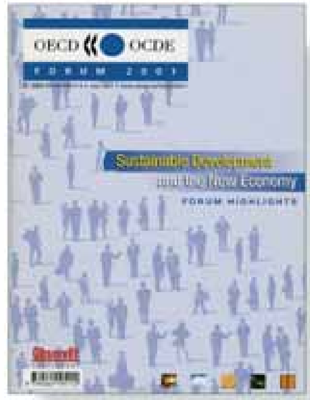
Then, in the words of our moderator, "Why is globalisation a dirty word?" I suppose, for many, this is because they do not feel that they have seen the benefits. Some of those benefits have been invisible to them. One example I would point out is the driving down of consumer prices due to cheap imports from China and other parts of the world. The consumers do not necessarily see those benefits the way they see other benefits. And this is a serious communication problem. The Minister of Finance of Korea has pointed out that they have adopted policies to try and meet that challenge, and, I must say, we all should be extremely proud of the performance of Korea in the aftermath of the crisis of 1997.

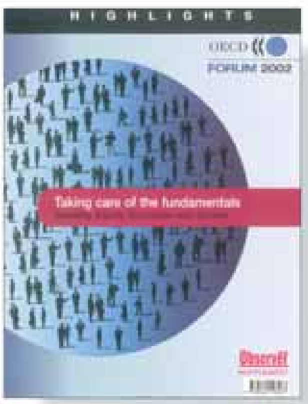
I think of balancing globalisation as walking a tightrope, and picture the government as the walker, holding a balancing pole, and one side becomes increasingly weighed down by the immense wealth that is being generated in the country. But the other side is out of balance because those benefits are not being transferred adequately. So the balance is lost. I do not know how many of you have walked a tightrope – I do not think I have for some years – but I know that, if the pole is not balanced, you are in serious difficulty. You cannot move forward and I think that is a challenge to be faced by many of our countries. Globally, it is very clear that we have not achieved that balance, and that is why we are so intent upon achieving the conclusion of the Doha Development Agenda, and also on achieving the Millennium Development Goals.

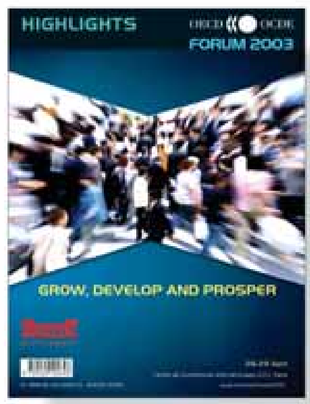
How do we get governments to transfer these benefits? What steps do they have to take to make sure those benefits are transferred from the obviously huge beneficial results of globalisation on the one hand, to social cohesion on the other? That takes us into a debate which I am sure we will have here. These challenges cannot be faced by politicians alone, and that is why the OECD Forum is important. It has to be done in a dialogue between government, the political decision-makers, senior officials, business, industry and civil society. And of course, we have the added benefit of having some very senior people from the academic community with us. And I think that is the only way that we will be able to achieve the necessary structural reform in order to bring balance back, both nationally and internationally, and that is why this Forum is extremely important.

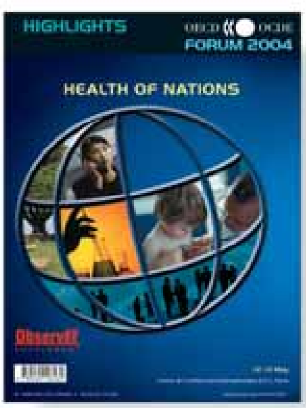
PREVIOUS OECD FORUMS

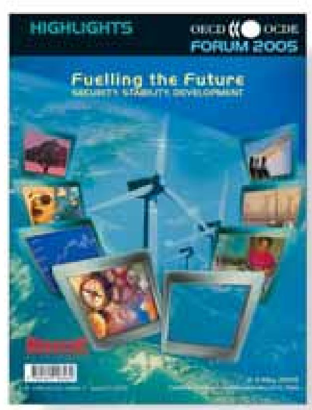












www.oecdforum.org


Expanding was the least we could do
to connect you to the major world markets
Calyon is the Corporate and Investment Bank of the Crédit Agricole Group,
combining the businesses of Crédit Agricole Indosuez and Crédit Lyonnais' Corporate
and Investment Banking division. A major player in Europe, Calyon enjoys
a global coverage (55 countries), a full range of products and services,
and strong ratings (AA- Standard & Poor's, Aa2 Moody's, AA FitchRatings).
Over 1,800 Capital Markets experts deployed in 30 dealing rooms will
help you find the best solution to attain your goals.
This is why we strive to remain your privileged partner.
CALYON
CORPORATE AND INVESTMENT BANK
GROWING TO MATCH YOUR GROWTH
www.calyon.com
CRÉDIT AGRICOLE GROUP

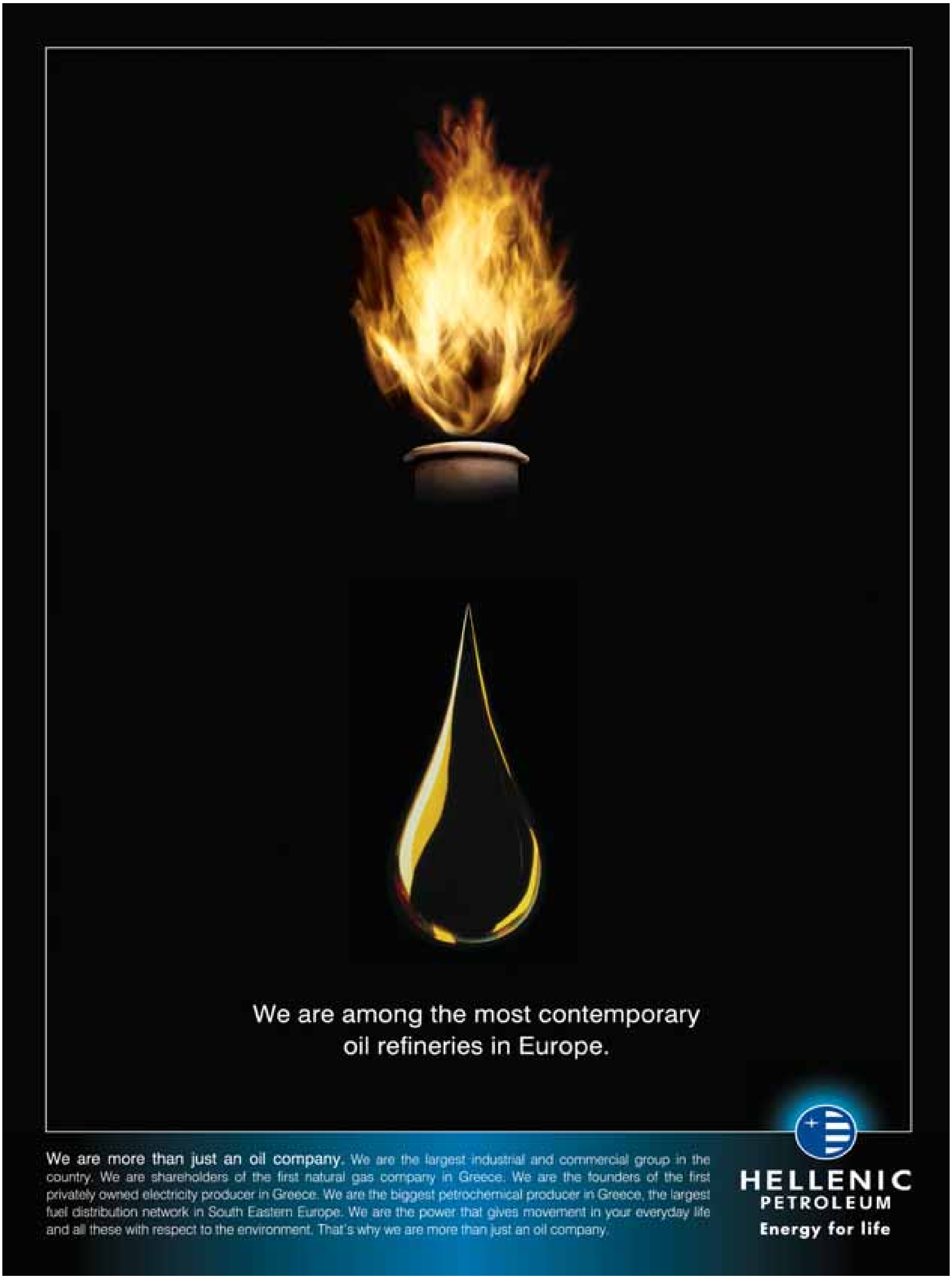
Twelve Olympian Gods to guide

One bank to make it happen

First established in 1990 as Euromerchant Bank, Eurobank EFG today is the second largest listed Greek bank. To date, Eurobank EFG Group has received the highest ratings among Greek banks from international rating agencies Standard & Poor's, Fitch and Moody's, and offers a full range of banking products and services to individuals, corporations and institutions. Employing over 16,000 people, servicing its clientele through differentiated branch networks and alternative distribution channels, Eurobank EFG Group aims to be the banking group of first choice for clients in Greece and the wider region of emerging Europe. As a member of the Geneva-based EFG Group it has direct its access to European financial markets. Strong financial standing, product innovation, unparalleled quality of service, access to international know-how and extensive experience in servicing institutions, render Eurobank EFG the bank to trust for all your financial servicing needs.

Eurobank EFG

Head Office: 8 Othonos str., 105 57 Athens, Greece, www.eurobank.gr


We are among the most contemporary
oil refineries in Europe.
We are more than just an oil company. We are the largest industrial and commercial group in the country. We are shareholders of the first natural gas company in Greece. We are the founders of the first privately owned electricity producer in Greece. We are the biggest petrochemical producer in Greece, the largest fuel distribution network in South Eastern Europe. We are the power that gives movement in your everyday life and all these with respect to the environment. That's why we are more than just an oil company.
HELLENIC
PETROLEUM
Energy for life


© 2006 KPMG International. KPMG International is a Swiss cooperative that performs no client services. Services are provided by member firms. All rights reserved.
Global perspective
Local presence
With your success in mind.
Whether you are a multinational corporation, a medium sized company or a public sector body, KPMG member firms can assist you with your audit, tax and advisory needs. Our member firms' professionals offer practical industry experience and bring a deep knowledge of the local and global markets in which they work. More importantly, they take the time to understand your business.
Please contact your local KPMG member firm by visiting www.kpmg.com
AUDIT ▪ TAX ▪ ADVISORY
KPMG


all that's missing is you
Turismo Madrid
www.esmadrid.com
madrid
¡MADRID!

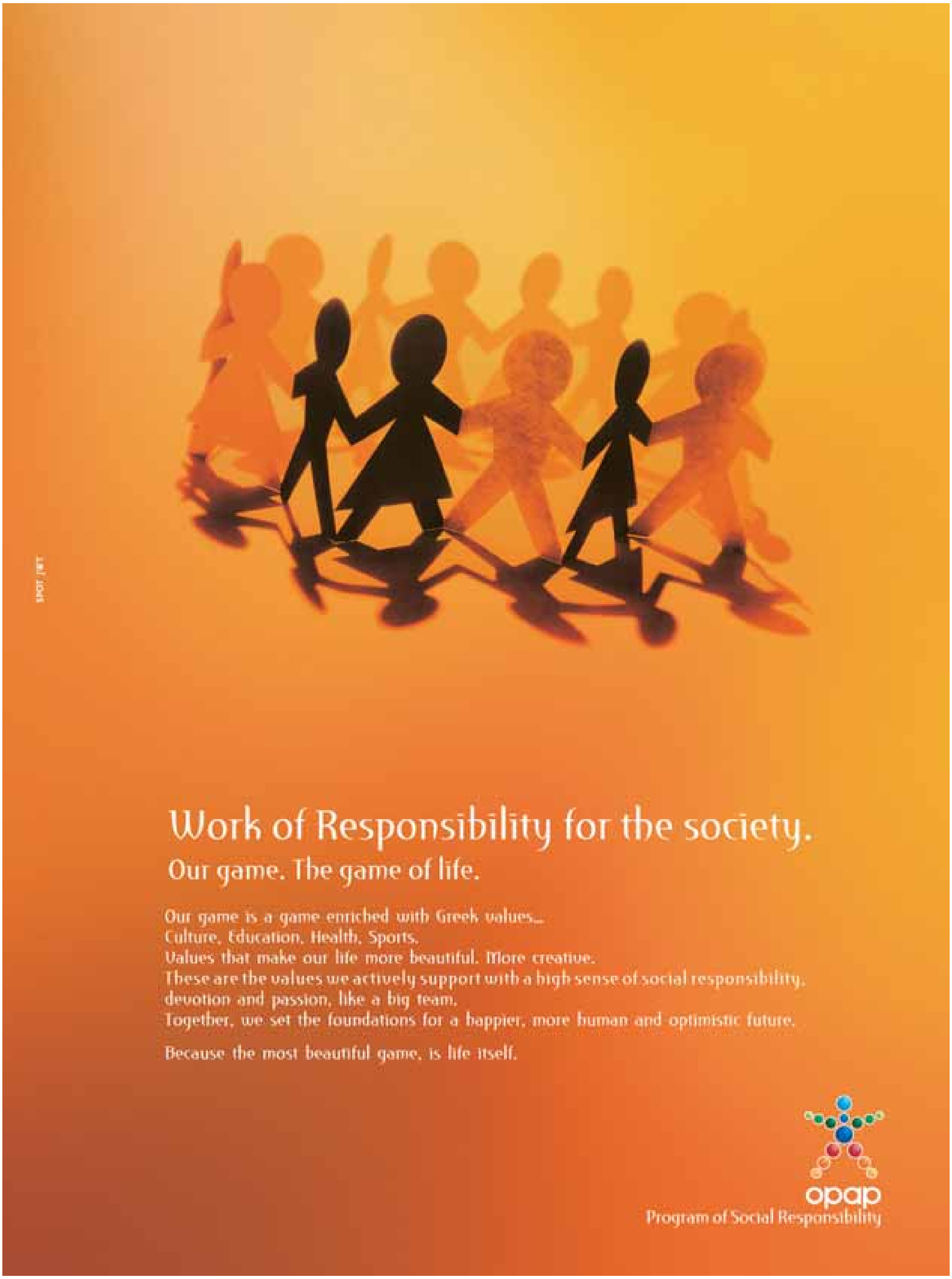
At Merck Sharp & Dohme (MSD),[1] our passion for research drives everything we do. For more than 100 years, MSD scientists have pioneered innovations for treating diseases from high cholesterol to HIV/AIDS. That record of achievement continues today as we work to develop breakthrough treatments, investing more than $20 billion in the past 10 years to research conditions such as Alzheimer's disease, obesity, diabetes, and cancer.

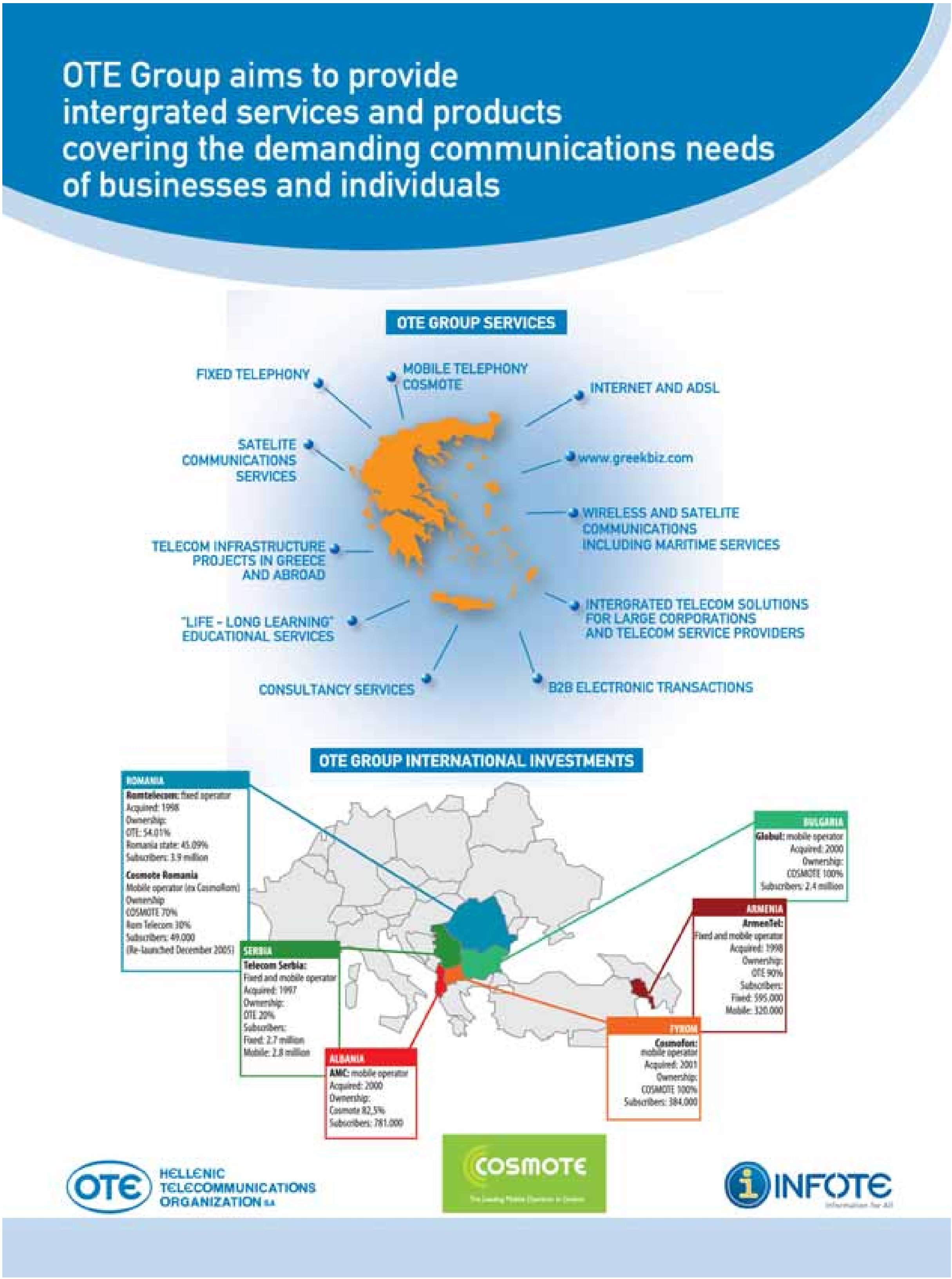
We believe in putting patients first in all that we do. That core belief is the fundamental reason MSD is working to bring our medicines, expertise, and experience to people around the world.

Where patients come first MSD

From the fight against river blindness in Africa and Latin America, to our partnership with the government of Botswana and the Bill & Melinda Gates Foundation to tackle Botswana's HIV/AIDS epidemic, to helping low-income patients receive the medicines they need in the U.S., MSD is committed to delivering the best that medicine can offer.

[1] Merck Sharp & Dohme or MSD is the name Merck & Co., Inc., Whitehouse Station, NJ, USA, uses for conducting its business in all countries outside the United States and Canada (except Japan, where Merck operates as Banyu).


Work of Responsibility for the society.
Our game. The game of life.
Our game is a game enriched with Greek values...
Culture, Education, Health, Sports.
Values that make our life more beautiful. More creative.
These are the values we actively support with a high sense of social responsibility,
devotion and passion, like a big team.
Together, we set the foundations for a happier, more human and optimistic future.
Because the most beautiful game, is life itself.
opap
Program of Social Responsibility


OTE Group aims to provide
intergrated services and products
covering the demanding communications needs
of businesses and individuals
OTE GROUP SERVICES
FIXED TELEPHONY
MOBILE TELEPHONY
COSMOTE
INTERNET AND ADSL
SATELITE
COMMUNICATIONS
SERVICES
www.greekbiz.com
WIRELESS AND SATELITE
COMMUNICATIONS
INCLUDING MARITIME SERVICES
TELECOM INFRASTRUCTURE
PROJECTS IN GREECE
AND ABROAD
INTERGRATED TELECOM SOLUTIONS
FOR LARGE CORPORATIONS
AND TELECOM SERVICE PROVIDERS
"LIFE - LONG LEARNING"
EDUCATIONAL SERVICES
CONSULTANCY SERVICES
B2B ELECTRONIC TRANSACTIONS
OTE GROUP INTERNATIONAL INVESTMENTS
ROMANIA
Romtelecom: fixed operator
Acquired: 1998
Ownership:
OTE: 54.01%
Romania state: 45.09%
Subscribers: 3.9 million
Cosmote Romania
Mobile operator (ex Cosmorom)
Ownership
COSMOTE 70%
Rom Telecom 30%
Subscribers: 49.000
(Re-launched December 2005)
SERBIA
Telecom Serbia:
Fixed and mobile operator
Acquired: 1997
Ownership:
OTE 20%
Subscribers:
Fixed: 2.7 million
Mobile: 2.8 million
ALBANIA
AMC: mobile operator
Acquired: 2000
Ownership:
Cosmote 82,5%
Subscribers: 781.000
BULGARIA
Globul: mobile operator
Acquired: 2000
Ownership:
COSMOTE 100%
Subscribers: 2.4 million
ARMENIA
ArmenTel:
Fixed and mobile operator
Acquired: 1998
Ownership:
OTE 90%
Subscribers:
Fixed: 595.000
Mobile: 320.000
FYROM
Cosmofon:
mobile operator
Acquired: 2001
Ownership:
COSMOTE 100%
Subscribers: 384.000
OTE
HELLENIC
TELECOMMUNICATIONS
ORGANIZATION SA
COSMOTE
INFOTE

Because they are essential for life,
SUEZ puts energy, water and waste services at your service.

Supplying electricity and gas, providing the associated services, distributing water, recycling waste; all are essential expertise for living in a responsible world.
In both the energy and environmental sectors, SUEZ works every day to offer innovative and sustainable solutions, to businesses and individuals.

suez

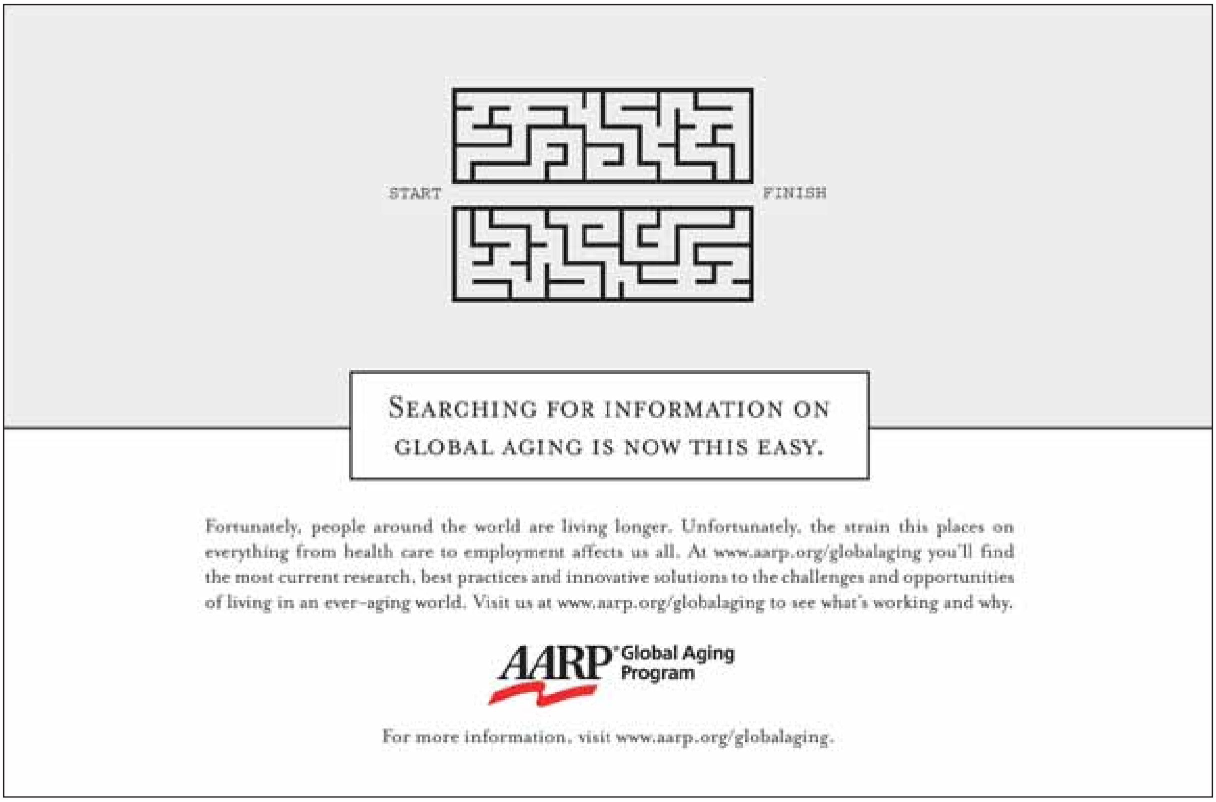
www.suez.com

DELIVERING THE ESSENTIALS OF LIFE

Chung Hua Institution for Economic Research (CIER) was established in July 1981. The CIER deals with economic growth issues, as suggested by the government in its draft of the Financial and Economic Reform Measures. CIER has been the main economic research organization in Chinese Taipei for the past twenty-four years. Research is conducted on domestic and international economics as well as other selected areas of interest. The research results are then provided to the government in support of domestic policy making.

Following Chinese Taipei's accession into the World Trade Organization (WTO) on 1 January 2002, the CIER has been further tasked with the handling of all matters in regards to Chinese Taipei's interaction with the WTO. This includes creating and filling research positions specific to WTO issues, establishing databases, and providing information and guidance to government and private institutions.

In addition to the above services, the CIER's Central Support System employs experts on WTO regulations, and on domestic and International Law for negotiations relating to bilateral and multilateral trade. In both the medium and long term, the Center will work to expand the range of functions it provides. This will likely include publishing books and research articles on relevant issues, providing logistical support for negotiations, and undertaking proactive and mutually beneficial exchanges with other WTO-related organizations.


START
FINISH
SEARCHING FOR INFORMATION ON GLOBAL AGING IS NOW THIS EASY.
Fortunately, people around the world are living longer. Unfortunately, the strain this places on everything from health care to employment affects us all. At www.aarp.org/globalaging you'll find the most current research, best practices and innovative solutions to the challenges and opportunities of living in an ever-aging world. Visit us at www.aarp.org/globalaging to see what's working and why.
AARP Global Aging Program
For more information, visit www.aarp.org/globalaging.


THE DEPARTMENT STORE CAPITAL OF FASHION*
GALERIES Lafayette
• DUTY FREE SHOPPING
DÉTAXE A L EXPORTATION
• PRIVATE WEEKLY FASHION SHOWS
DÉFILÉS DE MODE HEBDOMADAIRES
• CURRENCY EXCHANGE OFFICE
BUREAU DE CHANGE
• WELCOME SERVICE - BUREAU D ACCUEIL
• INTERPRETERS - INTERPRÈTES
• LAFAYETTE GOURMET: DE LUXE GROCERY - ÉPICERIE FINE
• RESTAURANTS
40, BD HAUSSMANN 75009 PARIS. METRO CHAUSSÉE D ANTIN-LA FAYETTE
OPEN MONDAY THROUGH SATURDAY FROM 9.30 AM TO 7.30 PM.
LATE NIGHT OPENING EVERY THURSDAY UNTIL 9 PM.
OUVERT DE 9 H 30 A 19 H 30 DU LUNDI AU SAMEDI.
NOCTURNE JUSQU A 21 H LE JEUDI. TÉL. : 01 42 82 36 40
galerieslafayette.com
*Le grand magasin, capitale de la mode.

Revitalising European growth

Backing the winners

- *MODERATOR :* **DAVID EADES,** PRESENTER, BBC WORLD
- **JEAN-PHILIPPE COTIS,** CHIEF ECONOMIST, OECD
- **JOHN MONKS,** GENERAL SECRETARY, EUROPEAN TRADE UNION CONFEDERATION
- **NICHOLAS NANOPOULOS,** CEO, EUROBANK EFG, GREECE
- **MICHAEL P. WAREING,** CEO, KPMG INTERNATIONAL

The issue of revitalising economic growth in Europe is a complex one for which all speakers on this panel agreed there is no panacea.

The target date for completion of the Lisbon Agenda, the EU's stated aim of raising Europe to being the world's most competitive, knowledge-based economy by 2010, is rapidly approaching, and there is a broad consensus that progress to date has been disappointing. In terms of productivity, the euro area has been losing ground to the US over the past 15 years, and there have been few signs of this situation changing, at least as far as the larger EU economies are concerned. But the lead speakers suggested a number of ways in which governments could improve performance.

Michael P. Wareing noted that competing with the rapidly-expanding, low labour-cost economies such as China and India was obviously a challenge, but pointed out that there were some bright spots in Europe's current economic position. Enlargement is so far proving a success. New member states are achieving rapid rates of economic growth, boosted by a well-educated and highly motivated workforce.

Economic growth and productivity performance in the Scandinavian countries has also been comparatively strong in recent years, in part because of their solid records in terms of R&D spending and their prominence in information, communications and technology-related sectors. The problem of European sluggishness lies with the larger, more moribund economies. Michael P. Wareing suggested that economic performance in these countries could be improved by nurturing entrepreneurship and encouraging new businesses, rather than by protecting old ones. In some industries, such as financial services, European governments could channel more support towards "winners".

Nicholas Nanopoulos observed that Europe fails at what the US does best, which is to shift employment away from mature industries and into new dynamic ones, without producing high unemployment. Although there are a number of ways of improving Europe's ability to follow suit, Nicholas Nanopoulos highlighted three: restructuring the overly bureaucratic and unproductive public sector, which crowds out the private sector; improving labour market flexibility,

Nicholas Nanopoulos

22 May

David Eades and Jean-Philippe Cotis

including decentralised wage bargaining; and introducing reforms in product and service markets in order to stimulate greater competition.

Jean-Philippe Cotis asserted that government policies, such as those that discourage employment of older people or place limits on working hours, stifle European growth. He also noted that too little has been done to encourage innovation and research in many European countries, and that funding for tertiary education in these countries is often inadequate. Spending on tertiary education in the US and Nordic economies is, for example, twice the level that it is in the bigger European economies. He argued that more should be done to create a more business-friendly environment, reducing red tape and other administrative burdens. The most important reforms, he said, are those that boost competition in the services industries, given that these account for the majority of European employment and output.

Taking a different track, John Monks argued that the now-familiar calls for greater flexibility, particularly with respect to labour market reforms, are seen by employees as code words for lower job security and other potential threats to worker livelihood. The anxieties these threats generate have contributed to a mistrust of European projects, such as enlargement and the European constitution. This has in turn led to an increase in savings which has undermined growth in demand and economic activity. Savings rates in some of the larger economies have risen to unusually high levels in recent years. This lack of trust has also compounded the political difficulty of enacting further-reaching and beneficial reforms.

The debate over the future direction of economic policy is often portrayed as a straight choice between the US market model and the continental European approach, or roughly stated, between the market and the state. But the success of the Nordic economies in combining high taxes and generous welfare systems with solid growth, strong public finances and moderate unemployment suggests that the problem is more complex. For John Monks, Europe should be looking north, rather than west, for inspiration.

John Monks

Michael P. Wareing

Discussions with the audience focused on the role of institutions and the EU's role in helping to unblock growth. One participant wondered if institutions in Europe, which had started out more as facilitators of progress, were now seen by a wider public as part of the problem. Asked where funds to expand R&D and education would come from, Michael P. Wareing suggested that EU funds could focus less on infrastructure and more on investing in knowledge. Jean-Philippe Cotis echoed the importance of R&D and emphasised the need of policies to encourage private sector involvement as well. ■

Information technology – the next phase

Digital minds

- *MODERATOR :* **LUCA DE BIASE,** INFORMATION TECHNOLOGY AND SCIENCE EDITOR, *IL SOLE 24 ORE,* ITALY
- **PATRICK DE SMEDT,** CHAIRMAN, MICROSOFT EUROPE, MIDDLE EAST AND AFRICA
- **ELLIOT E. MAXWELL,** CHAIRMAN, EMAXWELL AND ASSOCIATES, UNITED STATES
- **ARNOUD DE MEYER,** DEPUTY DEAN, INSEAD, FRANCE
- **RACHID TALBI EL ALAMI,** MINISTER-DELEGATE TO THE PRIME MINISTER, MOROCCO

Participants in this session were reminded that Bill Gates once famously predicted that “640 kilobytes (memory) should be enough for anybody”. Of course, that limit has been passed over many times since, and today, storage is measured in terms of million bytes, or gigabytes. The future of information technology may be difficult to predict but panellists agreed, the pace of change will be exponential.

Luca de Biase animated a wide-ranging discussion on the challenges facing a world characterised by exponential increases in memory, capacity and computing speed. What are the implications for ordinary users and businesses as information and communications technology seesaws its way between “open” and “restricted” content? And are developing countries starting to bridge the digital divide or is broadband creating a wider gulf than ever?

One point the panel agreed on is that the future is coming faster than we think. Information that is today available for fingertip access will soon literally start “following people around”. Rather than opening up an e-mail box packed with hundreds of items every morning, Arnoud de Meyer foresees the day when we are continuously connected to our information sources and databases.
He calls this “tacit connection”, and says it will revolutionise the way we live and work ten years from now.

Access to anything, anytime, anywhere, is coming soon, he says, and the devices that will bring us there are destined to make today’s mobile phones and Blackberries look like tools of the Stone Age. And the information flow will be in both directions – the idea of having sensor devices inside our bodies, for example, monitoring our health and updating our medical files

Arnoud de Meyer and Rachid Talbi El Alami instantaneously, is not far off. "The problem here of course is avoiding information overload."

Pervasive technology also encourages knowledge sharing, but that also leads to easier pirating of ideas and intellectual capital. Elliot E. Maxwell described the next phase of IT development as one where opportunities for openness will expand. Networks are, by nature, a shared technology, he said. "Most products, services, or processes are neither completely open nor completely closed, but they exist somewhere on a scale of openness", he said. At one end of the spectrum, for example, are software or applications that are highly restricted and thus the least shared. Then come proprietary software which is shared under certain circumstances. Then comes open source, with databases that operate interactively, like Wikipedia. The freest platform is the Internet.

Finding the right balance between the "open" and "closed" systems of the past will be one of the main challenges of the years ahead, Elliot E. Maxwell said. This applies to both access to information and intellectual property. "Before, intellectual property rights holders would obtain value by controlling access to their works, but now, they can also obtain value by encouraging others to contribute to it", he said. But participating in a world of pervasive computing also carries security risks, notably for personal data. He says however that privacy can still be protected in this world, because data collection will be decentralised and ever-changing, thus allowing for anonymity.

Patrick De Smedt began by sharing his chairman's prediction that technology innovation will enable business to change more in the next ten years than in the past twenty. He then brought up what he sees as a new trend in society – user empowerment. "Consumers, especially the 16-27 year-old age group, are no longer satisfied with products that are offered to them by companies off the shelf. Instead, they want to have a part in the creative process", he said. Patrick De Smedt said that information technology is increasingly giving consumers control to define the products that they want. "The producer no longer decides", he said.

The trend lies in XML-based web services, through which there will be a high degree of integration between users and those offering products and services, Patrick De Smedt explained. As for bridging the divide with developing countries, he said that partnerships which bring together the private and public sectors are required to stimulate and encourage innovation and ensure increasing access to technology, education, skills training and to incorporate the developing world. Microsoft aims to continue to increase access to IT in emerging markets, and the company and its many partners are currently working on new business models to achieve this.

Rachid Talbi El Alami countered that governments in developing countries were willing to implement intellectual property laws, but that product pricing had to keep in step with people's ability to pay. Otherwise, individuals would be driven in the wrong direction and lose respect for intellectual property laws. The minister reminded the floor that access was not everything, that in countries with high illiteracy rates, for instance his own, the real prospects for participating in the information world remained low. "We are not yet using IT to share or contribute to the universal body of knowledge out there – for us, the digital divide is widening every day, in all aspects."

Elliot E. Maxwell

Much work remains to be done in Morocco, he said, just to implement the basic conditions needed for an information society. Progress will come from the top down. "We would like to take some steps forward in development", he said, but added another observation: that it was more difficult to participate in the shared or open information society when the brain-drain in Morocco was so crippling. Half of the engineers trained each year in Morocco leave the country, Rachid Talbi El Alami said.

In short, the panel concluded that technology has great potential to help spur growth, but is only part of the solution. Without broader efforts in areas like education and investment, the digital world will continue to be marked by imbalances. ■

Luca de Biase and Patrick De Smedt

Cities and globalisation

Elliot E. Maxwell

City sense

- *MODERATOR:* **CHRIS W. BROOKS,** DIRECTOR, PUBLIC AFFAIRS AND COMMUNICATIONS, OECD
- **MICHAEL HARCOURT,** CHAIR, PRIME MINISTER'S EXTERNAL ADVISORY COMMITTEE ON CITIES AND COMMUNITIES, CANADA
- **ALBERTO RUIZ-GALLARDÓN,** MAYOR, CITY OF MADRID, SPAIN
- **YAZID SABEG,** PRESIDENT OF BOARD OF DIRECTORS, CS COMMUNICATION & SYSTÈMES, FRANCE

Cities are economic drivers at the heart of globalisation. They are increasingly interconnected and in direct competition with each other. Policymakers should look more closely at their potential, since boosting their competitiveness and liveability would bring wider benefits.

"The 21st century will be the century of the city, but this fact has not yet been fully appreciated" said Michael Harcourt, crystallising the thinking underlying this discussion about cities and globalisation. "We used to talk about countries competing against each other for economic prosperity and betterment, but now cities must compete with each other, not just domestically, but with other cities around the world", he added.

Alberto Ruiz-Gallardón said, stressing a similar point, that "Europe's major cities have become the leading forces in powering development in the countries to which they belong. Success and failure at national level is now determined by the successes and failures of the cities." However, it was a tough battle, and rather like the Queen of Hearts in *Alice in Wonderland,* cities had to run simply to maintain their current positions.

These movements are positive in development terms, but they are also generating new and rising tensions. For instance, Alberto Ruiz-Gallardón highlighted stresses resulting from immigration, the pressing need to modernise city infrastructures, and the lack of appropriate finance to meet the challenges. Madrid had welcomed more than 100,000 immigrants over the last three years, and some 17% of the capital's population was now of immigrant origin.

At the same time, Yazid Sabeg suggested that "our largest cities have become essential actors in the globalised world economy". Activity has become concentrated on large centres clustered around the main urban population zones, and these now monopolise much of advanced nations' human, material and cultural resources.

"Globalisation brings a mix of effects that varies from place to place, even within the same city. Ignoring these effects reduces capacity to create further opportunities", reckoned Michael Harcourt. "There is growing evidence that we can help fashion better, sustainable outcomes by promoting governance mechanisms that are appropriate for these new times."

Luca de Biase and Patrick De Smedt

Alberto Ruiz-Gallardón

In particular, Michael Harcourt suggested that "place matters" and that "resources and responsibilities should be devolved to the level of government at which they can operate most effectively". Moreover, the ability to compete globally was vitally affected by the choices made at local level in welcoming and settling immigrant workers, attracting human talent, addressing urban planning and integrating labour markets, he added.

By way of example, Yazid Sabeg cited the massive investments – some 600 billion euros – that had been made in urban renewal in France over the last thirty years, and the further 30 billion euros that were to be invested over the next seven years. Yet these efforts had not prevented unrest and disaffection in the poorest sections of the population. Past planning policies that had fostered segregation and social immobility among immigrant populations, and the frequent failure, even today, of government to talk with local people had much to answer for in this respect, Yazid Sabeg believed. Ghettoes were now a reality in major OECD cities, he acknowledged, and policies were needed to address this.

Alberto Ruiz-Gallardón agreed with a suggestion from the floor that increased contacts and co-operation between cities welcoming immigrants and the newcomers' countries of origin could play a positive role in assisting the process of integration. "In addition, we already have many contacts and exchanges with other cities in Europe confronting similar issues to our own", he said. At the same time he emphasised the fact that "running a city is not just a matter for the local council and politicians". Other participants including representatives of civil society and business needed to be closely involved.

"This approach involves risks for politicians, who have tended in the past to avoid this type of involvement, but in Madrid we are committed to making it work", Alberto Ruiz-Gallardón continued. In addition, he stressed the importance for politicians to reconcile the need for informing and consulting the public before decisions were taken with their duty to play a leadership role and to decide and implement policies.

Moreover, with regard to financing city projects, Alberto Ruiz-Gallardón explained that "we are not looking for more funds and subsidies from central government. What we want is a specific local tax-raising power that will encourage city authorities to exercise their powers responsibly."

At the same time, there was a huge range of projects requiring investment. "I will not speak of priorities, but I would say that there are three things that are of particular importance – education, education and education," the mayor said.

Chris W. Brooks emphasised the importance of governance as a key driver in making cities competitive. He noted that nowadays "cities were being recognised as assets and not just considered as expenses". In this context he went on to stress the importance of fostering the environmental sustainability of the modern city.

Michael Harcourt indicated that the way in which central governments considered city issues was beginning to change for the better. For instance, in Canada a new government department had been created for Transportation, Infrastructure and Communities. "Being given responsibility for local authorities has not traditionally been considered one of the plum jobs in government", Michael Harcourt added, but this was changing with the rising importance of cities as players on the global scene. This new importance could bring about a new way of thinking, too. ■

Balancing globalisation

Kostas Karamanlis, Prime Minister, Greece

Moderator Donald J. Johnston, Kostas Karamanlis and George Alogoskoufis

It is a great pleasure and honour for me to address the OECD Forum, a reputable and well established institution advancing public dialogue and mutual understanding.

Our focus this year is on how best to balance the negative and positive effects of globalisation. Our common objectives are the achievement of benefits, their long-term sustainability and their equal distribution to all countries. So that citizens enjoy higher incomes and improved living standards. So that the right to employment and social protection is secured. So that the gap between the rich and the poor is gradually bridged.

For centuries now, populations of different backgrounds and cultures gradually became involved in more extensive and complicated economic relations. After all, the true origins of migration, trade and economic co-operation date back to ancient times. In spite of several intervals of international conflicts and protectionist policies, the unprecedented pace of global integration we observe today is more of a historic pattern than a circumstantial drift.

In the last 20 years, the pace of international economic integration accelerated sharply. Major economic and political events such as the historic re-unification of Europe, the outward-oriented policies in East Asia, China's sweeping economic reforms and the steady growth of India, together with the tremendous progress in technology and innovation and the digital revolution, made it possible to shorten distances and widen opportunities.

In this respect, globalisation is not only about trade and financial flows. It also refers to the movement of people and knowledge, to wide co-operation and sharing of best practices, to mutual exchange of information and support.

Globalisation has unleashed unprecedented powers of growth in many parts of the world. But at the same time, it has created causes for concern with respect to job insecurity, social exclusion, widening imbalances, terrorism, security of energy supply and the environment. Unsurprisingly, not everybody views globalisation as beneficial. Some regard it with suspicion; others view it as just being inevitable. Notwithstanding how we perceive it, globalisation remains both an opportunity and a challenge, an advancing reality affecting more and more citizens across the world.

Our experience so far has shown that the opportunities of global integration are not seized without effort. The power of globalisation needs to be harnessed and carefully directed to our benefit. The speed and extent of change is enormous. Our policies need to be focused and proactive. International co-operation towards common targets is required.

Some countries have become integrated into the global economy more quickly and efficiently than others by adapting, restructuring and changing accordingly. As a result, they observe faster growth, higher income and welfare. As Darwin has noted, "it is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change". A successful example is provided by the impressive developments in Southeastern Europe, a region, known for its troubled past which has embraced a promising future by adapting and integrating.

Greece, being the only EU member in the region, is actively encouraging regional co-operation in many fields such as transport, entrepreneurship, trade, tourism and energy. Through concerted action, the region is developing into an international energy hub improving its development potential and strengthening its global presence.

Conversely, countries which do not succeed in reforming appropriately or in improving their competitiveness face difficulties enjoying the benefits of global integration. Indeed, market forces, extending beyond national borders, promote efficiency and give easier access to capital flows, new technology and cheaper products. But they do not always ensure fair distribution.

Trade imbalances accumulate and fiscal accounts are over-stretched. Coupled with increasing demographic pressures, such imbalances indicate mounting difficulties in maintaining sustainable public finances.

Furthermore, as advanced economies mature, they become more service-oriented, thus shifting towards high-skilled jobs. As a result, low-skilled jobs are threatened and unemployment builds up. These global imbalances certainly lead to mounting insecurities. Especially, when taking into account further spillover consequences such as social exclusion and a deteriorating environment.

Soaring energy prices and a turbulent energy market create another source of concern. However, such uncertainties should neither reverse the process nor indicate a shift to inward-oriented policies of the past.

On the contrary, they should serve as a wake-up call for governments to embrace policy changes, implement the necessary reforms and coordinate procedures in an effort to build competitive economies and strong, inclusive societies.

The main focus should be on:
Macroeconomic stability – budgetary consolidation remains a challenge in many countries. Healthy public finances are crucial in order to secure efficient allocation of resources, long-term sustainability and social security for all citizens.
Structural market reforms – promoting openness and competitiveness is imperative. Opening up product markets and reducing entry barriers; modernising labour markets by improving supply and demand; securing smooth financial markets by appropriate regulation; and reducing redtape are essential priorities.

Countries need to increase the pace of structural reforms (and that is the course of action we currently implement in Greece) in order to integrate into the global business environment and seize the opportunities that free trade and open markets generate. Especially in terms of creating more and better jobs. Nevertheless, for growth to be sustainable, the global community must increase awareness on environmental issues.

Protecting the environment should constitute the milestone of globalisation rather than be seen as an obstacle to growth. In this respect, efforts at national level should concentrate on reducing oil dependency and promoting the use of renewable resources. Common initiatives, such as the Kyoto protocol, should be implemented and further reinforced.

Kostas Karamanlis

The progress in innovation and technological advances has been undeniable. But most of the research and its outcomes remain concentrated in a few pioneering countries.

We need to coordinate our efforts to globalize R&D and spread the gains of innovation. In this rapidly changing environment, lifelong learning is necessary. Modern education and training are decisive in increasing employment, reducing social exclusion and limiting inequalities. Through a common platform, countries should promote research and innovation and modernise education so as to develop knowledge-based societies and adaptable labour forces.

A prominent example of such coordination efforts is the case of the European Union. Member states have set common targets in order to increase competitiveness and enhance the role of the Union in the global economy. The review of the Lisbon Strategy in 2005 launched a new partnership for growth and jobs, and stressed the importance of broadening the ownership of reforms. Old structural weaknesses are addressed in a concerted and mutually reinforcing way. Multilateral co-operation is essential.

Reform implementation remains a difficult task. Economic and political conditions play a crucial role. Often costs of reforms are immediately visible and concentrate on specific groups, whilst benefits are mostly medium- and long-term and diffused across society. As a result, resistance to reform has been strong internationally.

Keynote addresses

Angel Gurría, Kostas Karamanlis, Donald J. Johnston and George Alogoskoufis

To respond, governments need to proceed in thoroughly explaining the problems, clarifying the alternative solutions, jointly agreeing on courses of action, enhancing commitment and coalition building, achieving the largest possible political and economic consensus.

We need to embrace society in every step of the process. Increase the awareness of citizens about the nature and extent of the real problems, the consequences of inertia and the benefits of reforms.

This is what the European Partnership for Growth and Jobs is about:
- a partnership of societies;
- a partnership between governments and citizens;
- a partnership within and between countries.

In our search for balanced global integration we should not underestimate the importance of international institutions. They have the opportunity and the capacity to play a stabilising role, ensuring that all countries, especially the poorer ones, receive guidance and support. They can ensure that the global community coordinates its efforts in reducing inequalities, promoting sustainable growth, containing the risks of globalisation and increasing the benefits for all.

An important global problem, in need of a collective approach, is fighting poverty and securing decent living standards for every man, woman and child. The OECD and other international institutions, have an important role to play. In 2000, through the Millennium Declaration, the leaders of the world established the Millennium Development Goals and adopted the Monterrey Consensus.

Last year, during the UN General Assembly, the global community reaffirmed and reinforced these ambitious but, nevertheless, attainable objectives. Certainly, more has to be done. But only through such commitments can we hope to tackle issues like global pandemics, extreme poverty and hunger.

In an era of enormous changes, our aim is to assist our countries to address these problems and challenges – to provide the opportunity for reaping the benefits of these changes in a balanced way by always combining the need for economic efficiency with the need for social cohesion and security.
Our concern is to enhance global co-operation with respect to diversity, but also with respect to universally accepted values. Reaching a common understanding and agreement is imperative for realising the benefits of the new era. Throughout our common course, three unifying goals can guide our code of conduct: “Peace, international co-operation and economic prosperity”.

The OECD Forum brings together representatives from the political, economic and social spectrum. Thus, it provides the grounds for such an understanding and co-operation. This year's topics are of utmost importance. Discussing and advancing issues such as global imbalances, diffusing the benefits of innovation and technology, creating more and better jobs, achieving reform support, integrating the emerging economic powers into the world economy and reducing extreme poverty, take us one step closer to attaining the benefits of global integration.

Ladies and Gentlemen, the process of globalisation can be balanced. It is up to us to adapt, adjust and widen the political and social momentum for change. It is also up to the international organisations to foster and coordinate reform policies, to help restoring imbalances and to support developing countries. The choice is ours. The challenges are many. But the benefits lie ahead, for us to capture. I am looking forward to a constructive dialogue. ■

Structural reforms in Europe

*Jean-Claude Trichet, President, European Central Bank**

It is a pleasure for me to be here at the OECD Forum to share with you my views on structural reforms in Europe. I am particularly honoured to take part in this Forum given the leading role played by the OECD in shaping global discussions on economic, financial and, especially, structural issues which are the topics of my intervention today. I wish also to pay my tribute to the outgoing Secretary-General Donald Johnston for his outstanding leadership and, if he permits me to say that, for his deep friendship. Let me also welcome the new Secretary-General Angel Gurría for whom I have esteem and confidence for the past 25 years.

Jean-Claude Trichet

Over the last years, the euro area witnessed a slight improvement in the utilisation of labour. Remarkably, employment growth showed resilience to the economic slowdown at the beginning of this decade. However, the employment rate in the euro area remains low by international standards. Furthermore, since the launch in 2000 of the Lisbon Strategy, the annual growth rate for the euro area has averaged 1.8% per year (compared to 2.8% in the US), thus remaining behind its main competitor. When comparing the euro area's economic performance to the US, there is evidence of increasing disparities in growth.

The main explanatory factor behind these developments is the diverging trend in hourly labour productivity growth between the euro area and the US. Over a period of 20 years, we have been the witnesses of a very significant structural change across the Atlantic. From the 1980s to the first years of the 21st century, the growth of labour productivity per hour has been multiplied by more than two in the US, while it has been divided by two in Europe. Overall, the relative position of the US and of Europe has changed by a factor of four to the detriment of Europe.

It seems to be relatively easy to understand why the US has improved its own productivity. Technological progress in the IT productive sector in particular has contributed significantly. But even more important has been the effect on productivity of the diffusion of IT and of innovation in general in all the sectors of the US economy, particularly the services sector, with a substantial impact on retail business and on the financial services sector.

On this side of the Atlantic, one can understand why we did not observe the same jump in labour productivity. On the one hand, the share of IT production in GDP is significantly lower and, on the other hand, the absence of sufficient flexibility in the economy does not permit benefiting from the rapid diffusion of innovation in general, and of IT in particular, in the other sectors of the economy.

But there is a second paradox in the case of Europe, or perhaps more than a paradox, a conundrum. Why is it that, not only did we not improve our productivity when the US did – around the mid eighties – but we observed, on the contrary, a very significant diminishing of our productivity? This phenomenon seems to me only half understood through traditional explanations: the impact of specific policies, launched in several European countries, aiming at drawing back to work a significant number of previously unemployed, unskilled workers with a low level of productivity; and a degree of under-investment hampering the stock of capital allocated to each employee. The other half seems to be explained by a significant diminishing of total factor productivity, which is extremely surprising because it occurs precisely at the moment of powerful historical surge in science and technology.

There we are at the heart of the conundrum. The conjecture I would propose is that, under certain circumstances, in a period of very rapid technological and structural change, the more an economy is inflexible, the more it resists these changes, to the extent that far from taking advantage of the acceleration in progress in technology, its total factor

Keynote addresses

Moderator Angel Gurría

productivity growth diminishes relative to the period preceding the surge of technology. In other words, it seems that there is not only an opportunity cost for being inflexible in a period of very rapid technological change (*i.e.* not seizing the new opportunities offered by the acceleration of changes) but also a "direct cost", coming perhaps – and there lies the conjecture – from the fact that under the stress of accelerating changes, the economy becomes even more inflexible and hostile to technological progress than in more "normal times".

The evolution of the total factor productivity growth in Europe seems to confirm that phenomenon. From an average level of 1.3% in the 1980s, it diminished to an annual average of 1.1% during the 1990s and 0.7% between 2000 and 2004. These observations are calling urgently for structural reforms, in particular all the reforms that would augment the flexibility of all markets – labour, goods and services and financial – in the euro area economy.

Understanding the reasons for these developments is very important. As also stressed by the OECD, the lack of sufficient structural reform in Europe is a major cause of the gap in economic growth between Europe and the US.

The euro area economy is facing a number of important challenges, including rapid technological change, ageing populations and accelerating globalisation. Moreover, the long-term sustainability of public finances in the euro area should be improved by pursuing pension as well as health care reforms. These challenges will require major efforts to increase the adjustment capacity of the euro area in general, and of workers in particular.
The adverse consequences arising from an ageing population could only be solved by an extension of the working life and/or substantial inward migration.
Other challenges, such as globalisation and increased competition, are also accompanied by increased opportunities: globalisation provides incentives for firms and workers to excel in what they do best while outsourcing some goods and services at lower costs on a global scale, providing consumers with substantial benefits.
I should like to highlight some of the key priorities for reform in four main areas: namely, getting people into work, increasing competition, unlocking business potential and supporting an innovative environment.

Well-functioning labour markets are extremely important in fostering high economic growth. Benefit systems that are too generous discourage job search, early retirement schemes encourage early withdrawal from the labour market, and marginal tax rates that are too high discourage labour market entry and have a downward effect on the average hours worked.

To increase labour utilisation and get people into work, necessary labour supply side measures include the reform of tax and benefit systems to address these problems and increase incentives to work. Measures aimed at reconciling motherhood with professional life, such as the provision of child-care, may raise participation rates. Furthermore, the use of flexible forms of work such as part-time and temporary work may also provide further working incentives.

High unemployment rates in the euro area, and in particular high youth unemployment rates, clearly suggest the need to spur labour demand. In this context, there is a need to promote wage flexibility and to address labour market rigidities. Furthermore, adjustments to the level of employment protection legislation are needed where they impede the hiring of younger and older workers in particular.

Increasing competition and establishing efficient and well-functioning product markets is another prerequisite for higher medium- to long-term growth. A lack of competition harms productivity trends by limiting production efficiency and by reducing the incentive to innovate. Moreover, increased competition is generally associated with a lower price level brought about by a reduction in the mark-ups of firms.

More competition in EU service markets is required. The euro area should step up measures to boost services market competition in order to increase economic efficiency and economies of scale. This would support a higher level and growth rate of labour productivity in the services sector and promote a more dynamic economy. A higher level of competition in the services sector would tend to support more efficient and flexible services markets, facilitate adjustment processes and increase the resilience of the euro area to economic shocks.

In this context, an internal market for services and the adoption of the Services Directive would constitute an important step forward. It would remove barriers to cross-border provision of services and make it easier to set up services businesses in other member states.

In the EU, some progress has already been made in improving the functioning of product markets. For example, several network industries, like telecommunications and air transport, are now fully or largely open to competition. And the reforms do pay off. The remarkable labour productivity growth performance in some network industries in Europe over the last ten years provides a perfect example of the positive impact on labour productivity growth of easing regulations and fostering competition.

The third prerequisite for higher growth in the euro area is the unlocking of business potential by creating an entrepreneurial-friendly economic environment. This includes lowering costs imposed by public sector administrations for existing firms and business start-ups. In March 2006, the European Council called for the establishment of "one stop" arrangements in each member which would allow the setting up of a company in one week by end 2007. Today it takes on average 27 days to set up a new business in the euro area compared to 5 days in the US.

To fully exploit productivity potential, the labour and product market reforms just mentioned need to be accompanied by policies that help to diffuse innovation and technological change. This includes, *inter alia*, measures to support innovation by higher investment in research and development (R&D). In 2004, roughly 1.9% of euro area GDP was spent on R&D compared to 2.8% in the US. Europe has set itself the target of achieving a share of 3% of GDP by 2010. Analyses made by the European Commission show that if the effects of the increased knowledge investment foreseen within the Lisbon Strategy were added in, the increase in annual EU potential output growth could reach up to three quarters of a percentage point.

Moderator Angel Gurría and Jean-Claude Trichet

Of crucial importance in this strategy are the efforts to improve the labour force's level of education and expertise. The impact of education on growth may be related to innovation, as well as the adoption of new technologies. Additionally, better education and training help to reduce mismatches in the labour market and allow for a smoother reallocation of workers between sectors and firms. Furthermore, we need more high quality scientists and researchers. In the EU we have about 5.3 scientists and researchers per 1,000 workers, which compares to the US figure of 9 per 1,000.

In addition, ICT investment, which is an indicator of the diffusion of innovation, represented 6% of GDP in the US over the period 2000-2004 compared to only 3% in the euro area. ICT diffusion appears to be particularly relevant in the services sector given the higher potential for employment creation in that sector combined with the evidence that there is no apparent trade-off in the medium term between labour productivity and employment growth at the level of the sector as a whole. As a result, the key issue for the larger euro area countries is how to increase their future capacity to promote the diffusion of innovation and, in particular, technological changes in the service sectors, a field in which the Nordic EU countries have performed particularly well.

If euro area countries now summon up their strength and ambitiously push forward with structural reform, this will support and broaden the improvement in economic activity in the euro area. This is why the ECB has always encouraged the implementation of structural reform within the Lisbon Strategy. Five years later, progress has been made in some areas – as also indicated by an increase in the euro area employment rate. Still, all in all, the reforms have not been far-reaching enough.

Against this background, the mid-term review of the Lisbon Strategy in 2005 led to a relaunch of the process by shifting the strategy's focus more strongly on growth and employment. As an outcome of this process, all EU countries have prepared so-called National Reform Programmes that outline structural reform steps for the years 2005-2008. These measures are designed to, among other things, enhance the sustainability and quality of public finances, promote flexible labour and product markets, support a favourable business environment, and ensure a fully operational EU internal market, including the markets for energy and services. Applying comprehensive structural reforms is of particular importance for the euro area countries, in order to increase wage and price flexibility and the resilience to shocks, facilitate structural adjustment, raise potential output growth and job creation, and reduce price pressures, thereby facilitating the task of the single monetary policy.

Also the ECB's monetary policy has a role to play in supporting the implementation of structural reforms. A credible monetary policy aimed at maintaining price stability in the medium term contributes to a stable economic environment. In a stable macroeconomic context, it is not only easier to single out where reforms are needed, but the benefits of reforms are also made more visible, thus supporting their acceptance.

In turn, structural reforms can also have important consequences for the transmission of a monetary policy which is committed to price stability. In more rigid economies interest-rate changes are transmitted to prices after a longer delay and structural impediments can prevent the economic efficiency gains sought through the stability-oriented objective of monetary policy from being fully realised.

To conclude, the European Union is undergoing an important process of reforms of its socio-economic model so as to adapt it to future challenges. The economic strategy is on the right track; there is a consensus on the appropriate objectives and agreement on the right institutional setting to be set in place. The next decisive step is to now accelerate the putting into practice of these plans.

The earlier this happens, the earlier economic activity, employment and innovation in Europe can be lifted to a higher level and standard. I trust that this acceleration of reforms will not only be in the interest of Europeans, but eventually in the interest of the whole global economy as an economically stronger Europe will also raise our contribution to economic prosperity elsewhere in the world. ■

** Extracts from the keynote speech.*

Angel Gurría, Stanley Fischer, Michel Camdessus and Jean-Claude Trichet take a break from the debates.

Financial market liberalisation

*Stanley Fischer, Governor, Bank of Israel**

The first great era of financial globalisation started with the invention of the telegraph. If you look at when rates of return in different financial markets began to move together, it was when the telegraph was invented and thereafter, within minutes, interest rates and prices in different financial centres were essentially tightly linked. Now, in the 21st century, we have cut the minutes down to microseconds, but the critical change took place 150 years ago.

We are living, in this second age of financial globalisation, in a world of far greater financial sophistication than ever before, particularly the explosion of financial instruments based on derivatives. We are also living in an age of far wider and greater access to information and more rapid communications and transportation. This acceleration and widening potentially adds to the efficiency of the system, but also leads many to fear that the system is more vulnerable to accidents than it ever was before.

Stanley Fischer

Among the industrialised countries, financial sector liberalisation is seen as a desirable goal. The fundamental economic case for free capital movements is the same as the case for free trade. So why did the legacy of controls from the 1930s and from World War II take a very long time to disappear? In part because of the inertia that comes from having lived for a long time in a particular environment – with controls – and thinking that any change in the system would be destabilising. The OECD played a major role in promoting capital account liberalisation among the industrialised countries. It was also understood within the European common market, and later the EU, that capital mobility was essential to economic integration. There has been a more questioning attitude to capital account liberalisation among emerging-market and developing countries. These countries also emerged from World War II with extensive controls.

Despite the underlying concerns about the potential dangers of international capital flows, a growing momentum developed during the middle 1990s to promote the liberalisation of capital flows. Shortly before the Asian crisis, the G7, following a UK initiative, introduced a proposal to amend the articles of the IMF to make the promotion of capital account liberalisation one of the goals of the IMF.

As the capital account amendment initiative gathered strength, IMF Managing Director Camdessus and I emphasised that what we were supporting was not immediate liberalisation of the capital account, but rather *orderly* capital account liberalisation. However, while we were busy emphasising orderly capital account liberalisation, the Asian crisis intervened, and the crisis countries, and others, blamed the crises on aberrant and excessively powerful capital flows – and particularly on hedge funds.

So there was no capital account amendment of the IMF Articles of Agreement. And driven by similar fears, the proposal in the OECD for an agreement on foreign direct investment, for a code on foreign direct investment, fell by the wayside.

With an extra ten years of perspective, how should we evaluate the capital account crises of the 1990s? First, almost every crisis of the 1990s involved a *de facto* or *de jure* pegged exchange rate.

I believe that the move to flexible exchange rates has made more of a difference to the international financial system than any other change. That change takes away a major risk factor. By flexible exchange rates I do not mean *only* freely floating rates, exchange rate systems in which the central bank does not intervene. What I mean is a system in which, if the pressure rises, the country can allow the exchange rate to adjust without changing the entire basis of economic policy. So managed floating comes within this definition – provided that the currency is indeed allowed to be flexible.

Now let me return to the question of why capital account liberalisation is desirable.

Stanley Fischer, Michel Camdessus and Angel Gurría

There is a very simple text book story about the intertemporal allocation of resources, which says that some countries want to save more, some countries have better investment opportunities, and capital needs to flow between them so that those who have a relative desire for saving can save more, and the capital gets allocated to where its rate of return is highest. This is the basic story, though no-one expected that the intertemporal allocation would end up with most of the capital inflows going to the richest of the major countries, namely the United States.

A second reason is that financial sector liberalisation is a way of increasing financial sector competition and improving the quality of the financial system by allowing foreign competition. This is something I see daily. The Israeli economy benefits both by allowing our financial firms to compete internationally and by allowing foreign firms to supply services to Israeli companies. The foreign companies have better technology or had better technology. They know how to do things – financial sector engineering – that the locals do not, and if you allow that competition, your companies benefit.

There is a third reason that financial sector liberalisation is a good thing: it changes the outlook of domestic companies, and leads them to think globally. I will expand on this point in a while, drawing on Israeli experience.

A country that wants to integrate into the capital markets needs to ensure that its macroeconomic and domestic financial systems are sufficiently strong to deal with the possible strains that liberalisation might create. The first element in the macroeconomic framework is the fiscal situation, which needs to be sustainable, and preferably robust.

On the monetary policy side, the exchange rate regime is a key issue. If the exchange rate is flexible, then the goals of monetary policy need to be defined. Increasingly, countries are adopting a system of flexible inflation targeting in which the government defines a target range for inflation, and the central bank's job is to hold the rate within that range. But the goal needs to be interpreted flexibly, which is to say that if the economy is hit by shocks, the inflation rate may for a time be permitted to stay outside the target range while the central bank tries to bring it back gradually to within the range.

Beyond the macroeconomic framework, it is necessary to create a reasonably stable banking and financial system and that takes a lot of work. And beyond that, a country needs to liberalise gradually, not all at once. In terms of the type of capital flow, the principles of liberalisation are: 1) to liberalise inflows before or simultaneously with outflows; 2) to liberalise long-term capital flows before short-term flows; and 3) to liberalise foreign direct investment before portfolio investment.

In terms of which sectors to liberalise: first, the business sector; second, individuals; and third, the financial sector.

This is simply a set of principles, but it is not based on deep theory. Rather it is based on what seems to have worked.

Let me add two points. One is that it is important to liberalise outflows as well as inflows. As a result of the liberalisation of the capital account and the rapid growth of the economy, and the very successful high-tech sector in Israel, we have large capital inflows, about half of that foreign direct investment, the remainder portfolio investment. If we were not permitting outflows, there would be great pressure on the exchange rate, because we are also running a current account surplus.

But Israel also liberalised capital outflows. In 2005, outflows amounted to about 9% of GDP, roughly equal to the inflows. At the start of this process, the pension funds, the mutual funds, and Israeli households' investments were entirely domestic. That is not natural in a small economy. As a result of the liberalisation of outflows, we basically do not have net pressure on the exchange rate from capital flows.

The second point I would like to make is one that I had not appreciated until recently. I had not realised that when you liberalise the capital account, especially in a small economy, you change the philosophy of almost everyone in the economy. Before the liberalisation, people thought locally. By regional standards, we have a reasonably large economy, with a GDP of about 125 billion US$. By global standards, this is a very small economy, whose GDP is about 1% of EU GDP, and about 1% of US GDP. As soon as the capital accounts opened, business began to think globally –

businesses looking for investors began to think globally, their marketing became more actively global, and domestic savers began to think globally. To my mind, this change transformed the approach of business in a wholly positive direction.
In brief, as a result of a successful liberalisation, people begin to understand that the world is their stage and not just the local economy.

Let me turn now to address briefly two other issues of current concern: the potential dangers associated with the proliferation of derivative instruments; and global imbalances.

The proliferation and profusion of financial instruments naturally gives rise to concerns about potential risks to the international financial system. The nominal (face) value of derivative instruments amounts to multiples of global GDP. Based on this massive number, it is easy to tell stories about how a financial crisis can occur, as a chain of interlocking derivative contracts unravels due to a failure to settle one contract, which is hedging another contract, which in turn is a hedge to something else. This appears to be consistent with examples from chaos theory in which a butterfly flapping its wings somewhere in Africa can create a typhoon in China.

At the same time, the proliferation of derivative instruments has made it possible to separate risks from their original context and to shift them to those most willing to bear them. It is for this reason that many regard the development of financial instruments as making the financial system more robust and more efficient.

How should we think about the risks? Scenarios involving the unravelling of a chain of derivative transactions are more frightening than realistic, because there are netting arrangements among most institutions, which mean it should generally be possible to offset obligations that have not been settled.

The other concern is that the risks that are passed on through derivative contracts may be inappropriately placed and not adequately recognised. For instance, when banks securitise or hedge a risk, the risk migrates to other places, frequently it is believed to insurance companies. The concern is that the risks move from people who understand them to those who do not. There is another possibility, which is that the risks may be moving from places which are forced to mark-to-market, to places which are not forced to mark-to-market – because many participants in financial markets prefer to retain the capacity to smooth their revenues and profits.

Those risks are out there, and we cannot ignore them, but we should also consider that we have been living in the world of derivative instruments for some time, and that we do have experience with them.

The second issue causing major concern at present is that of global imbalances. Many believe that the international financial system has permitted imbalances in the US current account that simply would not have been possible before, and that are bound to end badly. Here, too, it is easy to tell a dismaying story, in which people rush out of the dollar, US stock prices decline, US interest rates rise, the US economy slows or even goes into recession, and the global economy follows.

This is clearly possible. But there are many other possibilities including a decline in the dollar that may be relatively rapid but that does not have a massive impact on output because the system adjusts to it.
Now, of course, if an economy adjusts without a collapse, it adjusts more slowly. It may well be that the US current account will take longer to change than we think. Further, the adjustment need not be from a current account deficit of over 6% of GDP to 0%; rather the adjustment could be to a sustainable level around 2.5% – 3% of GDP. Indeed the current account of the US has already taken longer to change than we thought it would. The dollar very likely will depreciate, but it is not going to happen steadily, rather it will take the form of movements around a trend that is hard to discern from day to day and month to month. As my former Citigroup colleague Bob Rubin says, “Markets go up and markets go down”, and that will apply to the dollar too.

If I can put this issue in slightly different words, we are frequently told that we should realise that we are like the famous story of people falling out of a high building and being asked by somebody as they go by, “How are you doing?”, and they say, “Fine so far!” There is another possibility: that we are living in a new world with much deeper financial systems, much more sophisticated financial instruments, much better information flows, that is more

Moderator Françoise Crouïgneau and Stanley Fischer

resilient than the world we lived in and that we do not yet understand – that is, the issue may not be how far we have got to fall till the inevitable collapse occurs, but rather that we do not yet understand the ground on which we are standing today.
We cannot know for sure in which of these situations we find ourselves, but the situation may not be as drastic as many believe. In any case, the role of economists is to keep pushing for policy changes that will resolve this situation favourably, and we all know what those policies are. And I am very happy to see that the IMF is now taking a lead in promoting action to implement those policies.

The title of this conference is "Balancing Globalisation". That is a good title. An even better one might have been "Benefiting from Globalisation". ■

** Extracts from the keynote speech.*

Snapshots from OECD Forum 2006

Fulfilling the promise of South Eastern Europe

Europe's Eastern promise

- *MODERATOR:* **ALISON SMALE,** MANAGING EDITOR, *INTERNATIONAL HERALD TRIBUNE*
- **GHEORGHE COPOS,** DEPUTY PRIME MINISTER, ROMANIA
- **DIMITRIOS DASKALOPOULOS,** CHAIRMAN, FEDERATION OF GREEK INDUSTRIES
- **RAINER GEIGER,** OECD CO-CHAIR, SOUTH EAST EUROPEAN INVESTMENT COMPACT
- **GERLANDO GENUARDI,** VICE PRESIDENT, EUROPEAN INVESTMENT BANK
- **MICHAEL MOZUR,** DEPUTY SPECIAL CO-ORDINATOR, STABILITY PACT FOR SOUTH EASTERN EUROPE

Alison Smale, Gheorghe Copos and Dimitrios Daskalopoulos

European Union member states carry a particular responsibility for moving forward on South Eastern Europe's regional co-operation and development, panellists discussing this complex regional picture agreed. Discussants also emphasised the importance of maintaining stability to underpin the continued progress in the less advanced countries which are not yet in the position of Romania or Bulgaria; both are looking forward to joining the EU in early 2007.

Alison Smale welcomed the OECD Forum's initiative to address this region which, she said, had been long ignored by such events. She pointed out that this panel was particularly timely given that it coincided with Montenegro's vote of independence from Serbia.

Gheorghe Copos expressed his country's appreciation of OECD support in relation to the EU negotiations. He linked these developments to Romania's heightened attraction to foreign investors who invested 5.5 billion euros in 2005, and are expected to surpass that sum in 2006. Romania had also introduced more generous fiscal legislation, intensified anti-corruption policies, accelerated privatisation and streamlined public procurement procedures.

Describing himself as both an optimist and a realist, Michael Mozur said the Athens' agreement had also produced an accord to invest some 25 billion US$ over the coming two decades to meet energy demand. The region's new stability pact covered 90% of all trade, while public policies on a range of areas such as labour markets, anti-corruption measures and factors influencing public attitudes, were bringing in more positive public reactions.

Michael Mozur also believed that the private sector, while still cautious and sceptical, is willing to invest in South Eastern Europe. However, he cautioned, this will require credible implementation of the right policies on all fronts.

Gerlando Genuardi discerned a clear shift in thinking in the region, and foresaw that the Balkans would be a key part of the future map of Europe's economy. The European Investment Bank channelled its major supportive effort through regional investment, and urged that more be done in promoting research and development. He also stressed the importance of supporting small and medium-size enterprises as key elements in efforts to strengthen the emerging private sector. Finally, he emphasised the need to stay the course in this region, which had followed a difficult road to arrive where it is now.

Dimitrios Daskalopoulos said that Greece's traditional ties made it a natural conduit for modernisation in South Eastern Europe. There had been difficult, even dangerous, moments but successes were more numerous than failures. Total absence of any open market mentality, a bloated bureaucracy, often riddled with corruption, and a legal and legislative vacuum, were difficult obstacles. "But the willingness to

Alison Smale

change is there and this makes one feel validly optimistic about the future of South Eastern Europe", he added, in a judgement echoed by others in the panel.

"Change in the region over the last 15 years has been nothing short of monumental." With Bulgaria and Romania nearly ready to enter the EU, and with Turkey embarked on the road to Brussels, it is only a matter of time before Albania and the state-heirs of Yugoslavia also find themselves on the path to European integration. "When this happens", said Dimitrios Daskalopoulos, "the Balkans may then perhaps overcome their Sarajevo legacy – as the powder-keg of Europe; a legacy which came very close to resurging in the mid to late 1990s." He noted that trade and economic ties have proved to be the main catalyst for modernisation, and today business opportunities abound.

Rainer Geiger pointed out that the Investment Compact set up in the OECD had proved to be a success. The Compact, which aims to promote national reforms and help develop regional integration by building networks in various policy areas, had increased investment and improved the investment environment. It has boosted growth and improved stability, sustainable development and regional integration.

The Investment Compact, he said, was also a success for the OECD as it is now considered a model for other regional co-operation programmes.

"The key to this success may be found in the integration of several elements." These included national reforms with time-bound targets, the establishment of regional networks to exchange best practices, the use of public/private sector partnerships and mobilisation of political support. Yet this success did not mean the job had been completed, he warned. Challenges remained, including the need for continued capacity building.

In response to a range of questions from the floor, Alison Smale invited panellists to sum up their reactions. Gheorghe Copos, listed the legislative changes that his government had introduced in response to the need for change. Dimitrios Daskalopoulos cited the spread of business acumen which had brought new challenges to the marketplace, while Gerlando Genuardi said that the investment environment, including for implementation, had greatly improved. Michael Mozur looked forward to the day when the reality of the regional co-operation in the Stability Pact would be comparable to the spirit shown in the Nordic Council, which he felt was an admirable example of international co-operation. ■

Rainer Geiger, Gerlando Genuardi and Michael Mozur

Energy and the economy

Warming up or cooling down?

- *MODERATOR:* **DIDIER POURQUERY,** EDITORIAL DIRECTOR, *METRO,* FRANCE
- **PHILIPPE BÉNÉDIC,** RESIDENT DIRECTOR GENERAL, ASIAN DEVELOPMENT BANK
- **EFTHYMIOS N. CHRISTODOULOU,** CHAIRMAN, HELLENIC PETROLEUM, GREECE
- **PADMA DESAI,** DIRECTOR, CENTER FOR TRANSITIONAL ECONOMIES, COLUMBIA UNIVERSITY, UNITED STATES
- **DAVID FEICKERT,** CONSULTANT IN INDUSTRIAL RELATIONS, ERGONOMICS AND ENERGY, UNITED KINGDOM
- **DAVID KNAPP,** SENIOR EDITOR, ENERGY INTELLIGENCE GROUP, UNITED STATES

Philippe Bénédic and Efthymios N. Christodoulou

Didier Pourquery introduced this "broad and hot" topic by describing the drivers behind recent energy price increases, notably new demand from China and India. He then put two questions to the panel. Although the effect on underlying economic growth seemed benign to date, what are the risks looking forward, particularly if prices rise still further? What policies are required to improve energy efficiency and tap alternative energy sources?

David Knapp provided a succinct summary of the characteristics of the energy market and how economic, financial and political forces interact to drive the market. He highlighted apparent economic paradoxes of oil: it is highly fungible, yet heterogeneous; demand is geographically diverse but supply is highly concentrated; oil projects are long-term, but financial markets react short-term. He said that we are now in a "seller's market", for only the fourth time in history. However, on the three previous occasions, in the 1920s, 1940s and 1970s, the causes were supply-based. This is an unusual demand-led phenomenon for which "there is no supply fix". This, David Knapp suspected, will make it last longer.

David Knapp then noted the growing impact of oil derivatives trading on financial markets which he described as "a very big tail wagging the dog". This moves trillions of dollars, making it far larger than the market for the actual product. David Knapp estimated that about 20 US$ to 25 US$ of the current oil price reflects the market's anticipation of future demand from China.

Philippe Bénédic pointed out that there is no "one size fits all" response to high oil prices in Asia. This is largely due to the coexistence of both oil importers and exporters in the region. Overall, however, the region is a net oil importer, and rising prices are a threat to the economic welfare of a region that is still home to two-thirds of the world's poor.

Despite relatively low consumption per head, energy demand in Asia rose by 230% between 1973 and 2003 and the region now consumes 25% of total world supply. Average world consumption growth over the same period was 75%.

Didier Pourquery

22 May

"This trend is neither economically nor environmentally sustainable", he said. Sustainable development will depend on three main factors: reliability of supply, energy efficiency, and diversification into alternative energy sources. He cited the example of China, where "GDP is expected to quadruple by 2020. But because commercial energy supply will only double in that time, energy intensity will need to halve in the next 15 years".

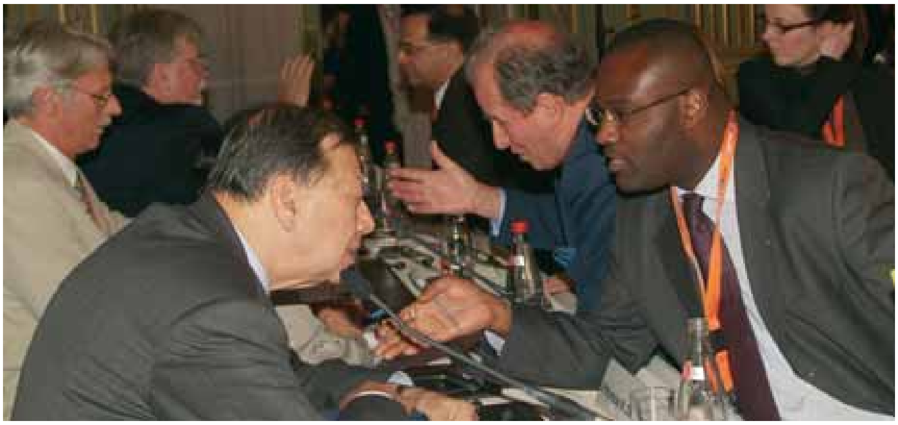
Padma Desai made three key points. She agreed that extra demand is being driven mainly by Asia, but said that the decline of European gas fields should not be overlooked. She also contended that most energy suppliers still exercise monopoly power and there is no guarantee that they will play by market rules. And finally, energy, she said "is largely about politics".

Padma Desai threw light on a number of the fundamental political forces at work in the market. Europe worries about Russia being a reliable long-term supplier, but Russia also frets about Europe being a reliable long-term customer. Russia does not want to be like "a cocoa supplier to Switzerland, which then makes fancy and expensive chocolate". It wants a share in the added value. "The recent gas deal between Germany and Russia, involving a swap of assets, is the way to go." Turning to India and China, Padma Desai spoke of the success of "equity oil" strategies, particularly in Africa. In return for stakes in their energy resources, China has been investing in African school systems, cement factories and rail networks. This is something "incomprehensible" for western oil companies.

Efthymios N. Christodoulou and Padma Desaï

David Feickert talked about the geographical shifts now occurring in global fossil fuel reserves, and the growing concentration of supplies in four regions: Latin America, Russia, parts of Africa, and the Middle East. There is only one solution that guarantees the security of supply, he said, "a negotiated multilateral agreement". He agreed that we are in a seller's market and that prices are set to remain high. He asked whether markets can solve the dilemmas posed by high prices and responded with a categorical "no". "In the short-run, markets are magnificent; in the long-run, they cannot think strategically or plan. There must be political guidance and creative regulation."

Seeking to temper concerns about the recent run-up in oil prices, Efthymios N. Christodoulou pointed out that there are at least 40 years of known reserves. Moreover, "oil is not the commodity it used to be … it is now a financial asset, like a stock or a bond, and its price experiences similar volatility for this reason. Perhaps the price today has as much to do with this as with oil supply and politics". There has also been a change in the nature of supply agreements, with producers seeking security of demand in order to avoid the bad experiences of the 1980s.



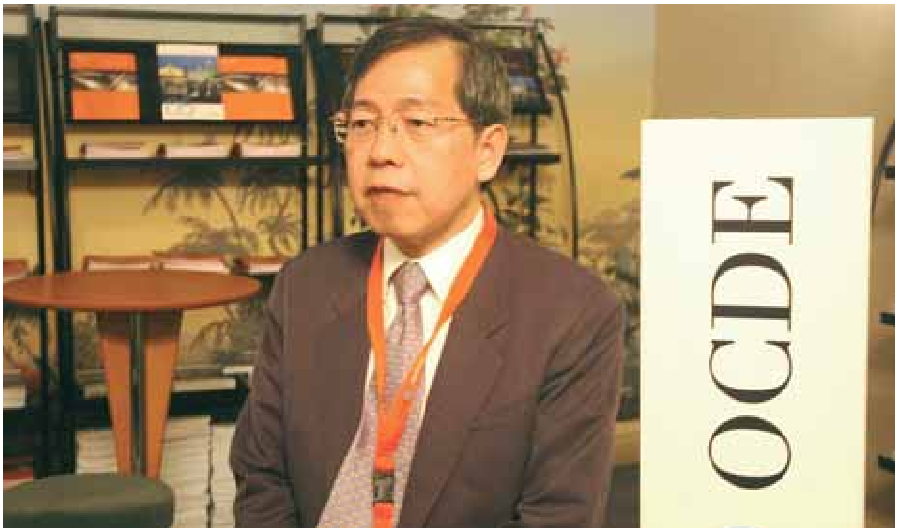
Efthymios N. Christodoulou also insisted that, in the final analysis, high oil prices may not be all that bad. "At these prices, we will see more investment in alternative energy sources and demand will be sustained at rational levels. If, at the same time, rules and regulations concerning oil profits are established, these could be used to resolve some of the world's problems."

Participants asked about the future of liquefied natural gas (LNG) and biodiesel energy. Both David Knapp and David Feickert agreed that LNG will expand substantially, and will probably be traded like oil, but did not believe it would solve problems of natural gas supply and its dependence on physical pipelines. The panellists also agreed that investment in alternative energies, such as biodiesel and clean coal technology, is essential, and that higher prices create the incentives to innovate. ■

Investment for development

Promising returns

- *MODERATOR:* **LUIS EDUARDO ESCOBAR,** SENIOR ADVISOR, MINISTRY OF FINANCE, CHILE
- **GONZALO FANJUL SUÁREZ,** HEAD OF RESEARCH, INTERMÓN OXFAM, SPAIN
- **FUKUNARI KIMURA,** PROFESSOR, FACULTY OF ECONOMICS, KEIO UNIVERSITY, JAPAN
- **CHEN-EN KO,** PRESIDENT, CHUNG-HUA INSTITUTE FOR ECONOMIC RESEARCH, CHINESE TAIPEI
- **ULYSSES KYRIACOPOULOS,** FORMER CHAIRMAN, FEDERATION OF GREEK INDUSTRIES
- **GIORGIO MAGISTRELLI,** SECRETARY-GENERAL, EUROPEAN CHAMBER OF COMMERCE IN CHINA



Chen-en Ko

Though investment has proven to be a powerful catalyst for innovation, sustainable growth and poverty reduction, it continues to fall short of development needs in non-OECD regions. This session probed the many facets of how investment promotes economic development.

Luis Eduardo Escobar cautioned against overemphasising foreign direct investment (FDI) as a solution to economic problems. Most investment (about 80% on average) is domestic, and policy makers must learn to put their own houses in order first. After all, an environment that is not conducive to domestic investment is hardly likely to attract foreign investment.

Gonzalo Fanjul Suárez focused on the current World Trade Organization (WTO) trade talks. A country's trade policy is considered to be a possible asset in attracting investment because it influences both domestic and foreign investment and is important for any development strategy. Trade can either substitute or complement investment. Trade can also draw attention to resources and markets that can highlight investment opportunities. So unsurprisingly, greater trade correlates with greater investment flows.

Gonzalo Fanjul Suárez expressed his disappointment at the way investment was dealt with in the early years of the WTO. Government proposals then focused on discouraging national governments from imposing any conditions on investors. Oxfam would have preferred to see a more balanced approach preventing the misuse of regulation and a greater opening of markets.

Fukunari Kimura provided some provocative insights into the international production and distribution networks of firms. His analysis suggests that firms which engage in export activity or foreign investment are highly productive. Less productive firms remain focused on domestic activity. There is no one policy instrument that alone will boost inward investment. That means encouraging high standards in terms of transparency in government policy, procedural fairness, openness and corporate responsibility.

Giorgio Magistrelli provided a description of China's implementation of its WTO commitments and the challenges remaining. The Chinese government has strengthened its protection of intellectual property rights (IPR) which is essential for promoting investment. But most foreign companies agree that the implementation of China's present IPR system is inadequate. Further, Chinese companies are themselves becoming more aware of the dangers and threats of excessive counterfeiting – the majority of civil litigation in trademark infringement cases (above 90%) are between Chinese companies.

Ulysses Kyriacopoulos

Ulysses Kyriacopoulos made a number of propositions for improving the climate for investment and entrepreneurial opportunities in developing countries. He suggested, in particular, that reducing government bureaucracy and its high compliance costs would free up resources which could then be put to better use. He also spoke of the importance of lifelong learning for future development and growth. Interestingly, he suggested that setting tough conditions to protect the environment could indirectly act as a powerful engine of growth.

Chen-en Ko described the investment experiences of small- and medium-sized enterprises (SMEs) from Chinese Taipei. He argued that FDI is not confined to large multinational enterprises (MNEs). Although most government policies focus on attracting MNEs, he argued that small international firms are characterised by an entrepreneurial spirit that can inspire local businesses. The government of Chinese Taipei, he said, "has built on the country's entrepreneurial culture by developing support systems such as financing, training and consulting facilities, even social programmes, so that SMEs may flourish. They then build their capacity in an environment of market competition." Consequent investments by these SMEs in neighbouring countries, prompted by higher costs in Chinese Taipei, have brought this entrepreneurial know-how to developing economies. This has been a critical component of FDI in southeast Asia by enterprises from Chinese Taipei.

The OECD's own Policy Framework for Investment attracted attention and comment. The Framework is intended as a checklist of issues for consideration by interested governments engaged in domestic reform, regional co-operation or international policy dialogue that wishes to create an environment attractive for investment. The investment could be domestic and foreign, while a good environment can enhance benefits for society more broadly.

Gonzalo Fanjul Suárez

A participant from the floor commented that the presentations were of little relevance to African countries mired in government debt and strife. This prompted a reply from another participant that investment policy can work in places like Africa as long as it is accompanied by "consumer" policies, such as the Kimberley Process, a joint government, international diamond industry and civil society initiative to stem the flow of "conflict diamonds" illicitly sold to finance wars. ■

Ying Chen and Giorgio Magistrelli

Financial education

Asset tests

- *MODERATOR:* **MARGARET HOLLINGER,** PARIS BUREAU CHIEF, *FINANCIAL TIMES*
- **LORENZO BINI SMAGHI,** MEMBER OF THE EXECUTIVE BOARD, EUROPEAN CENTRAL BANK
- **DARA DUGUAY,** DIRECTOR, FINANCIAL EDUCATION PROGRAM, CITIGROUP, UNITED STATES
- **DONALD J. JOHNSTON,** SECRETARY-GENERAL, OECD
- **WILLIAM G. KNIGHT,** COMMISSIONER, FINANCIAL CONSUMER AGENCY OF CANADA

Lorenzo Bini Smaghi and Dara Duguay

Ageing populations, dwindling pension plans, and increasing financial opportunities available through investment are creating a world where both the need and incentive for people to invest are on the upswing. Margaret Hollinger put it succinctly at the outset of the panel discussion on financial education: "We are all asked to take on more financial responsibility today, but most people are sent out into the world without the basic tools." Educating individuals to be responsible investors, aware of the risk levels they confront in modern life is thus a serious responsibility for governments, and an obligation for financial institutions, which hope to maintain credibility with a new generation of investors. How then, should people be given the tools to best manage their lives, finances, and retirements?

The consensus was that both the public and private sectors should be involved. Dara Duguay said that financial education should begin at a very young age, "as soon as kids start to ask their parents for money". As the former head of a US non-profit group, the Jumpstart coalition – an organisation of state agencies, banks, and NGOs – Dara Duguay was shocked to find that an early poll by the organisation showed that graduating US high school students failed on the basics when it came to knowing the ins and outs of their finances. Jumpstart drew up the idea of "financial literacy" to make this type of education a priority in the United States. The group gives money to NGOs that incorporate financial literacy into their education programmes by educating children about money and investments.

Some of the group's best practices include spending money to educate teachers about investing and drawing up interactive material to educate children about the stock market. On a global scale, Dara Duguay says that Citigroup finds collaboration with NGOs important, especially in its micro-credit efforts. "No one entity is big enough to tackle financial illiteracy on its own; it is a global problem", she said.

Lorenzo Bini Smaghi argued that financial education is important for central banks because it carries a macroeconomic impact. "Household financial assets have increased by 20% over the last 20 years – banks should start considering households as mini-financial institutions", he said. This means educating borrowers and investors about the risks involved. With the deepening of financial markets, Lorenzo Bini Smaghi said, should come added responsibility on the side of the banks because many groups in society "are ill-prepared" and end up taking more financial risks than they are aware of. As households take on riskier, more aggressive investments, financial institutions should be more demanding by encouraging a greater level of understanding among individuals of how financial markets work.

From a regulator's viewpoint, William G. Knight said that governments must stop assuming that citizens already have the necessary investment knowledge. Regulators have a responsibility to inform citizens as well as protect them, because governments cannot be expected to

William G. Knight

Dara Duguay and Donald J. Johnston

intervene with compensation for people who have made poor investment decisions. “In my opinion, we have a relatively comfortable social safety net in Canada, but when it comes to financial literacy, people are on their own. What we need is a financial education safety net based on lifelong learning to prevent abuse”, he said. Beyond just encouraging banks to adopt fundamental practices such as using plain language to describe financial products, governments can arm citizens with the knowledge necessary to make confident decisions. His solution: “a forum for discussion like this panel at the OECD”.

Donald J. Johnston pointed to a parallel with healthcare. Health spending is one of the top budgetary concerns of OECD countries, and he proposed tackling financial education in a similar vein to health education. Societies in OECD countries will be taking on increased individual financial responsibility, he said, and effects will be felt in the wider economy. He described how young people in Korea three years earlier had run up so much credit card debt that it led to a something of a crisis in the macroeconomy. The question, Donald J. Johnston believed, is not whether educating citizens financially should take place, but which approach. “We need to find a middle ground between financial education and a broader economic education to avoid situations like the one in the United States – where people watched their house prices go up, and then mortgaged them. We do not know exactly why they mortgaged, but it was probably to consume.”

One participant from the floor pointed out that consumers were not the only ones in need of financial education. Some financial professionals, notably the issuers of savings schemes and products, also need educating in how to become more responsible, for instance. The general view was that improving financial education may well be a step on the way to a more balanced globalisation, as long as the aim was to improve the underlying welfare of consumers, and not just boost investments into bank products. ■

Between sessions

Structural adjustment and social cohesion

Beyond safety nets

- *MODERATOR:* **LORD ALAN WATSON OF RICHMOND,** CHAIRMAN EUROPE, BURSON-MARSTELLER
- **IORDANIS AIVAZIS,** CHIEF FINANCIAL OFFICER, HELLENIC TELECOMMUNICATIONS ORGANIZATION, GREECE
- **JAGDISH BHAGWATI,** PROFESSOR OF ECONOMICS, COLUMBIA UNIVERSITY, UNITED STATES
- **ANA ISABEL LEIVA DIEZ,** STATE SECRETARY OF TERRITORIAL CO-OPERATION, MINISTRY OF PUBLIC ADMINISTRATION, SPAIN
- **PHILIPPE MANIÈRE,** DIRECTOR-GENERAL, INSTITUT MONTAIGNE, FRANCE

Lord Alan Watson of Richmond opened the discussion by noting that globalisation was a complex issue with diverse effects on migration, employment and even world sport. He said that there is a tendency to think of the effects of globalisation as principally concerning industrial work forces in Europe suddenly having to compete with low-cost production in China and in India. This, he asserted, is far too limited a view. As an example, he pointed to the potential consolidation of European and North American equity markets. This, he said, is "a perfect example of the impact of globalisation, and the response will involve structural change and job loss – even at the top of the capitalist pyramid".

Lord Watson then said that, by consequence, the topic of this panel was also very broad in nature. Certainly the short session could never hope to settle such an all-encompassing question as that of globalisation and structural adjustment, but he challenged the panellists to make an attempt.

Jagdish Bhagwati focused his initial comments on the implications of globalisation for developing countries. In his view, the argument that globalisation and economic liberalisation have led to increased inequality and political unrest, and should somehow be resisted, is superficial. Unrest in many countries is caused by the absence of an effectively functioning democracy that can channel discontent, and the lack of effective safety nets to minimise the social risks.

Economic reforms have delivered stronger growth and reduced poverty to the benefit of many. But reforms have led to a rise in *relative* inequality and disaffection among sizeable groups that feel they have not benefited from increasing prosperity. Safety nets can help minimise the risk of displacement and encourage politicians to press ahead with reforms that they might otherwise be reluctant to make.

Ana Isabel Leiva Diez noted that globalisation produces social transformations that are difficult to deal with for both developed and developing countries, but that it also creates opportunities. Globalisation should be a positive force boosting exports and growth, provided that steps are put in place to ensure that the benefits are distributed fairly, that natural resources are not over utilised, that policies are responsible and sustainable and that countries co-operate in order to ensure better outcomes.

Philippe Manière raised another challenge: that of how to convince a sceptical public that structural reforms are necessary. Ironically, this can be much harder to do in developed countries than in developing

Lord Alan Watson

ones, and he cited recent street disturbances in France's city suburbs as an example. Rich countries can afford to maintain ultimately unsustainable policies for a longer period by, for example, borrowing externally. In addition, rich country citizens generally have more to lose, so are less willing to risk losing it. That is, wealth itself becomes a barrier to change. For the general public to accept that change is necessary, it must first firmly believe that the current situation is bad and must be improved.

For Philippe Manière, change needs a trigger, some unforeseen event for people to demand change. Again looking to France for an example, he pointed out that there are cultural barriers to implementing reforms, particularly if they appear to be based on the so-called Anglo-Saxon model of liberalised markets with labour flexibility and limited state support on the social side. Low economic growth may reduce social mobility but it also entrenches resistance to change. France's intellectual and political elite fans this resistance, he asserted.

Can radical change, assuming it is needed, ever be implemented while minimising the social costs? Iordanis Aivazis believes

Iordanis Aivazis

Jagdish Bhagwati and Ana Isabel Leiva Diez

there is a way. His formerly state-owned monopoly underwent a process of partial privatisation from 1996. Deregulation of the telecoms market made deep staff cuts inevitable. But employment protection afforded to the state employees meant any normal redundancies were out of the question. The company engaged in protracted, and ultimately successful, negotiations with the unions over a voluntary programme of early retirement covering over a third of staff. Co-operation and mutual understanding saved the day.

Questions and comments from the floor were varied. One participant proposed a system of graduated tariffs on imports into developed countries based on the exporter's ranking on a number of social and environmental criteria. The proposal envisaged that any proceeds be returned to developing countries in the form of "environmental" investment. Jagdish Bhagwati responded by pointing out that it was the developed economies that caused much of the current environmental damage. He then asked whether it is fair to impose additional tariffs on developing countries in the name of the environment. In his view, these kinds of proposals are thinly disguised attempts to protect developed country markets.

The discussion then moved to immigration. One participant believed that migration from Senegal, caused by weak economic conditions there, was partly the fault of economic reforms imposed by multilateral organisations in the 1980s. Jagdish Bhagwati responded that migration is a response to both push and pull factors, reflecting disparities in living standards between developed and developing countries. Referring to the debate about controlling Mexican immigration to the United States, Jagdish Bhagwati warned that even a wall between countries would be scaled as long as there was the "pull of higher living standards". In any case, demographic changes, particularly those caused by ageing populations, mean that many developed economies will have to import labour in order to maintain living standards. ■

Creating jobs in the 21st century

When protection works

- *MODERATOR:* **LIONEL FONTAGNÉ,** DIRECTOR, CENTRE D'ÉTUDES PROSPECTIVES ET D'INFORMATIONS INTERNATIONALES, FRANCE
- **ANNE O. KRUEGER,** FIRST DEPUTY MANAGING DIRECTOR, INTERNATIONAL MONETARY FUND
- **JOHN P. MARTIN,** DIRECTOR, EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS, OECD
- **BASILE J. NEIADAS,** CEO, OPAP SA, GREECE
- **THOMAS C. NELSON,** CHIEF OPERATING OFFICER, AARP, UNITED STATES
- **JOHN J. SWEENEY,** PRESIDENT, AMERICAN FEDERATION OF LABOR–CONGRESS OF INDUSTRIAL ORGANIZATIONS

Lionel Fontagné and Anne O. Krueger

Globalisation, ageing populations, shifts in the patterns of manufacturing and rapid change, including technological advances, have been revolutionising the world of work and throwing out old employment certainties. "On the global stage, China has become a manufacturing giant, India is emerging as a major services supplier, and Brazil is making great strides in agricultural production," commented Lionel Fontagné. Given this daunting situation, what policies might encourage more job creation over the coming years?

Anne O. Krueger said that research showed that most loss of jobs in developed countries like the United States was caused by internal factors, such as technological change, rather than outsourcing and competition from low cost countries. "Industrialised countries have much higher levels of productivity than businesses in poorer countries do. Accordingly, they can afford to pay workers much higher wages," Anne O. Krueger explained.

She added that huge labour market inefficiencies had now arisen in many developing countries that had introduced very tight employment regulations. One of the main effects of this was to force people to work in the informal economy since few employers could afford the costs involved in formal sector employment.

On the other hand, according to John J. Sweeney, "measures are needed to balance the effects of globalisation, otherwise gaps will widen between rich and poor, and between capital and labour". He pointed to the effects that the entry into the global trading system of countries, such as China, India and Russia have had on world labour markets. This arrival on labour markets of some 1.4 billion extra workers "effectively doubled the existing number of workers around the world, and exercised downward pressure on wages everywhere".

John J. Sweeney

"We need the right sorts of rules so that there is a race to the top and not to the bottom in terms of employment conditions", John J. Sweeney began. He pointed to China where "there is no protection of workers' rights", and suggested that if it is good for business to protect intellectual property rights, similar benefits should flow from ensuring protection for workers. He added that there should be a focus on "creation of high quality jobs with an emphasis on innovation in which employers would be willing to pay high wages to attract the necessary skills".

John P. Martin, Basile J. Neiadas and Thomas C. Nelson

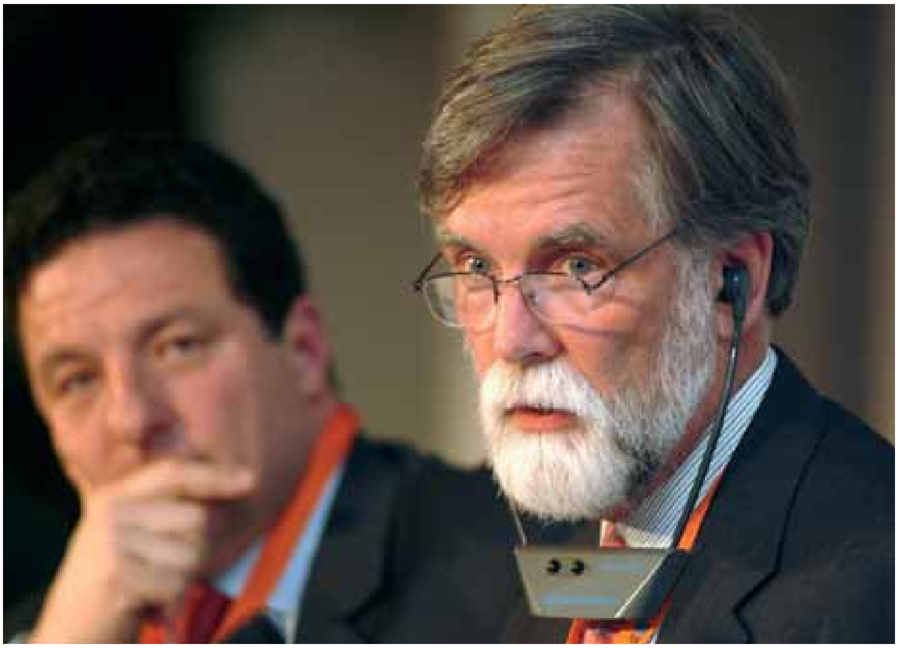
Basile J. Neiadas commented that over the next 20 years half the world's professions as currently constituted may disappear. "The same will happen in corporations. Many positions will cease to exist and others will change", Basile J. Neiadas said. He proposed that tomorrow's "good jobs" would be knowledge-based and connected to IT. "Environment, advanced production methods and human resources management are also key growth areas", he said.

Basile J. Neiadas then cited a recent study on employment which claims that "the knowledge available to people today represents only 5% of the knowledge that will be available in 2020". Employment policy must therefore adjust to new fast-changing conditions and "offer stability and much-needed confidence to the public". Policy should "be a catalyst for change, leading to a better quality of life".

Thomas C. Nelson noted that many people were extending their working lives well into what had once been considered "retirement age". A number of factors were contributing to this trend such as population ageing in industrialised countries and people's rising anxieties about financial security in old age. Ageing societies "create both challenges and opportunities". He suggested that if obstacles such as stereotyped attitudes and regulatory difficulties could be overcome, economies might benefit from retaining the skills and experience of older workers.

John P. Martin highlighted some key lessons learned from the OECD's work on job creation strategies. He suggested that if the right mix of policies were applied, "labour market flexibility could be reconciled with reasonable social protection of workers. For example, carefully monitoring efforts by unemployed people to obtain a new job can provide one useful incentive". John P. Martin also stated that efforts to expand product market competition and to introduce lifelong learning, combined with macroeconomic policies that fostered stability, were essential elements for stimulating job creation. "Schooling systems in many OECD countries are not currently serving students very well in this regard, and more attention needs to be paid to training workers", he suggested.

Comments from the floor asserted that labour market flexibility on its own could not guarantee creation of good quality jobs. For instance, one participant pointed out that Spain had carried out labour market reforms over recent years, yet in many cases workers' conditions had not improved. A third of Spanish jobs were of a precarious nature, the participant said. In this context, John J. Sweeney emphasised the importance of collective bargaining and a democratic approach to the right of workers to decide whether or not to join a trade union.



Basile J. Neiadas and Thomas O. Nelson

UNESCO FORUM

ON HIGHER EDUCATION. RESEARCH AND KNOWLEDGE

The UNESCO Forum, supported by the Swedish International Development Agency focuses on research systems and is a platform for researchers, policy-makers and experts to engage critically with key research issues and results.

FORTHCOMING EVENTS

Global Colloquium (29 November – 1 December 2006)

Universities as centers of research and knowledge creation: an endangered species?

Regional Seminars in 2007:

The Contribution of Higher Education to the Education System
Africa (Accra, Ghana 22-24 March 2007)

The Impact of Globalization on Higher Education and Research in the Arab States
Arab States (Rabat, Morocco)

Competition, Cooperation and Change in the Academic Profession in shaping Higher Education's contribution to knowledge and research
Asian/Pacific (Hangzhouand University, China)

Globalizing Knowledge: European and North American Regions and Policies addressing the priority issues of other UNESCO Regions
Europe (UNESCO, Paris)

Research and Higher Education Policies for transforming societies: Perspectives from Latin America and the Caribbean
LAC (Port of Spain, Trinidad and Tobago)

Special Forum Initiative: Strengthening National Research Systems

Experts' Workshop (Summer 2007)

For more information on the events listed, please contact the Forum's Secretariat (Asa Olsson: a.olsson@unesco.org) or consult the Forum website **www.unesco.org/education/researchforum**

Access to education

A question of quality

- *MODERATOR:* **ALI DOGRAMACI,** RECTOR, BILKENT UNIVERSITY, TURKEY
- **JOHN BANGS,** ASSISTANT SECRETARY, EDUCATION AND EQUAL OPPORTUNITIES, NATIONAL UNION OF TEACHERS, UNITED KINGDOM
- **GEORGES HADDAD,** DIRECTOR, DIVISION OF HIGHER EDUCATION, UNESCO
- **BERNARD HUGONNIER,** DEPUTY DIRECTOR, DIRECTORATE FOR EDUCATION, OECD
- **VERNON JOHNSON,** SENIOR VICE PRESIDENT, EDUCATIONAL DEVELOPMENT, WHITNEY INTERNATIONAL UNIVERSITY SYSTEM, UNITED STATES
- **DINA KAWAR,** AMBASSADOR, JORDANIAN EMBASSY TO FRANCE
- **WUSHENG ZHANG,** PRESIDENT, TIANJIN ACADEMY OF EDUCATIONAL SCIENCE, CHINA

Georges Haddad

“Today, when it comes to education, the question is no longer whether or not entire societies should have access, but what kind of education they should have access to”, said Ali Dogramaci in his opening remarks to this 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 teachers’ 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, 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. John Bangs said that the OECD’s record on international education assessment is highly respected by teachers for just this reason. Promoting diversity is one of the elements he considered essential to schooling systems today. But diversity in the teaching faculty cannot come at the cost of draining talent away from developing countries. “In the Commonwealth,” John 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?”, he asked, “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?” Georges 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 considered education as a fundamental right, and cited former EU Commission president, Jacques Delors, who proposed the idea of an “education credit” as everyone’s fundamental birthright.

Vernon Johnson, John Bangs and Dina Kawar

But education alone does not guarantee success in life. Georges 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 in many countries is that education systems are too poorly aligned with changing labour market demands.

A proponent of results-based teacher assessments, Vernon 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 of success, and education systems must take this into account. He 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.

In Jordan, some of the successes over the past 20 years can be used as an example by other countries. "We are a poor country with few natural resources, so we have 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. Furthermore, women have been establishing themselves in the professions, although they still only make up 12% of the active workforce.

Dina 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. She said she is always impressed when she visits computer education centres in the desert, which even nomadic Bedouin attend.

Assessment systems are crucial for improving standards, as is harmonising quality ratings. China has been using such a programme since 1994. Wusheng Zhang noted that 8,500 institutes specialising in skill assessment have since been set up around China, covering 2,000 different types of jobs. "By the end of 2002, more than 5 million people had passed through the system, which has five different levels and focuses on three sectors: the food industry, manufacturing, and social services." China has also co-operated on a bilateral basis with Germany, the United Kingdom, Korea, Japan and Canada in order to better develop its vocational training system.

Bernard Hugonnier summed things up by pointing out the panel's main point of consensus: access to education is not enough, quality also counts. Successful education consists of access and involves giving everyone the chances required to obtain good results at every level of education. This, Bernard Hugonnier said, sums up the principle of equity. ■

Georges Haddad and Vernon Johnson

Innovation and economic growth

Ideas that prosper

- *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.

Jean-Marc Vittori, John P. Hearn and Hamish McRae

"We still do not know much about innovation" said Jean-Marc Vittori 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 strong growth in productivity and prosperity. How will globalisation affect this, asks Jean-Marc 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, "but no economy can compete and grow without innovation". Furthermore, he said, innovation must be translated into economic development that delivers on the promise of prosperity for all people and not just the relative few.

Bringing a corporate perspective to the debate, and one from the highly-innovative pharmaceuticals sector, he stressed the importance of economic clusters in the innovation process, such as those in San Diego, Atlanta, 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 track record of creating growth and prosperity. However, clusters cannot exist without certain pre-conditions. These include the rule of law and respect for intellectual property, an efficient and science-based regulatory system, open markets and investment in health, education infrastructure, innovation and research.

John P. Hearn used the analogy of one of his 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 United Kingdom and United States, Australia has, says John P. Hearn, made R&D a priority: "there are many niche areas to exploit and, as the French say, *vive la différence*". But the key to innovation and success in the future, he stresses, is "clever people" who understand society. And while calls for more focus in hard sciences are understandable, John P. Hearn insists that a good broad humanities background is

Grey Fairfield Warner

also essential for the uptake and application of innovation. "We need to create flexible people."

Hamish McRae picked up on the phrase "clever people" and suggested that the nature of innovation is now undergoing a fundamental change. "Old innovation", said Hamish McRae, tended to be the product of collaboration between firms and universities – so-called "centres of learning". The main challenge then was how to get ideas out into the marketplace. Now, running in parallel with this established innovation path, is "new innovation". The trouble is that we do not always know where it is going to spring from. Hamish McRae cited 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 policy makers must ask themselves, concluded Hamish McRae, is "how do we become a magnet for talent ?"

Karien van Gennip recalled that at last year's Forum she had defended globalisation as a force of good. Now

Hamish McRae

Karien Van Gennip

she wanted to stress that the full benefits of globalisation would be forthcoming only if countries played by the rules. She 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 lifelong jobs but lifelong learning that will create prosperity."

For Karien 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.
Karien van Gennip was categorical on this point: "Businesses will not innovate if there is no guarantee that their R&D will be protected."

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, Hamish McRae stressed that "old innovation" would not disappear, and would continue to play a fundamental role alongside "new innovation". However, he warned that Europe would still have to improve the "catastrophic" state of its university system. John P. 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.

Discussions on effectiveness and fairness of protecting intellectual property rights were more divisive. Some panellists insisted that, without strong protection, businesses would simply stop innovating. Others, such as Hamish 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 him, it is not clear whether intellectual property rights will really be able to be enforced in the future. However, Karien van Gennip pointed out that 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.

Financial markets and growth

Tools and rules for capital

- *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

John Thornhill and Marc Litzler

Financial markets are important for development, but they need to be balanced by oversight and good regulation. These opening remarks by John Thornhill set the tone for the discussion. 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.

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 helped keep overall prices down in OECD countries. This in turn has helped keep long-term interest rates down, despite rising short-term rates. Moreover, the recycling of Asian 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, Marc Litzler argued.

Financial markets have always acted as intermediaries, said Mark Litzler, bringing together people with surplus capital and those with a need for capital or other differing interests. But this process has increasingly graduated from domestic markets 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.

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 US$ 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, Huguette Labelle believed, 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.

There has been some progress to date via conventions sponsored by the OECD, the International Monetary Fund (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, Huguette 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 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.

Inge Kaul and Kenneth V. Georgetti

One group of such instruments, dubbed "macro securities" by Inge Kaul, would include the likes of sovereign government bonds indexed to GDP or the price of a developing country's major export. Other innovative instruments 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.

Kenneth V. Georgetti was less upbeat. He 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 his 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, Kenneth V. 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. He believed 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.

Prompted by a comment from the floor regarding a new code aimed at eliminating corrupt practices related to export credit agreements, John Thornhill asked whether some areas of financial markets were currently escaping oversight, and what measures needed to be taken to make the system flexible enough to cover changing circumstances. Marc Litzler responded that oversight was already an obligation for the banks in developed countries, and that corruption-monitoring practices were already very resilient. Kenneth V. Georgetti warned that there is a need for greater shareholder scrutiny, and saw a role for institutions such as the OECD in harmonising regulations.

Summing up the session, John Thornhill 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, he 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. ■

Marc Litzler

Huguette Labelle

China: Governing for development

A new age?

- *MODERATOR:* **VIVIENNE WALT,** REPORTER, *TIME,* UNITED STATES
- **DOMINIQUE DE BOISSESON,** CHAIRMAN AND CEO, CHINA INVESTMENT CO. LTD, ALCATEL
- **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

Vivienne Walt, Dominique de Boisseson, Ying Chen and Sheri Xiaoyi Liao

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 panellists 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 of growth and output, but failed to provide a full assessment of the governance challenges faced by perhaps the world's most dramatic economic success story of the 21st century.

Dominique de Boisseson said that 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 World Trade Organization (WTO) commitments. Dominique de Boisseson commented that if one looks beyond those commitments to the practical issues, concerns remain regarding the replacement of trade barriers with more subtle barriers.

He cited China's own efforts to promote the protection of intellectual property rights (IPR) and the fact that Chinese companies are becoming more aware of the dangers and threats of excessive counterfeiting, even by domestic rivals.

Ying Chen 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.

Yves-Thibault de Silguy

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 a harmonious society and, at the same time, meet new requirements for reform and development. Such a society, 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 Xiaoyi Liao was more critical about the challenges ahead. Seven of the world's ten most polluted cities were in China, she pointed out; and China was the second largest CO_2 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 among 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. This meant that China's choices would be defining for the future of humanity as a whole.

Yves-Thibault de Silguy 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.

Sheri Xiaoyi Liao

China, he said, is a type of testing ground for the principles of sustainable development and good governance. Currently, the Chinese population suffers from inadequate access to water and energy supplies. City dwellers are forced to put up with high levels of air pollution. However, the country has woken up to the need to address these problems and the government has set itself strict and ambitious targets to improve the situation by 2010. In this respect, foreign companies such as Suez bring much more than investment to countries like China; they bring know-how that can help achieve such targets.

José de Sales Marques, 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 each year to absorb 25 million job-seekers in order to keep the employment rate at a stable level. Other major challenges included enforcing legislation, which was often misunderstood, especially by local authorities. Also, a confusing range of different practices imposed by different governmental authorities brought major difficulties.

José de Sales 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 tackling 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. 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 made by OECD countries. ■

Wisdom and governance

Is wisdom economically viable?

- *MODERATOR:* **FRANCIS MATHIEU,** CHAIRMAN, CLUB E-REFLEXION, FRANCE
- **CHRISTIAN DE BOISREDON,** FOUNDER, REPORTERS OF HOPE, FRANCE
- **MARC ODENDALL,** CO-FOUNDER, SAINT-HONORÉ MICRO-FINANCE, FRANCE
- **SAMUEL ROUVILLOIS,** PHILOSOPHER, CLUB E-REFLEXION, FRANCE

"Putting 1% or 2% of your assets into microfinance is a good investment", suggested Marc Odendall. He should know. 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 and is currently serving on the boards of several humanitarian organisations. Marc Odendall kicked off the discussion, "Wisdom and governance", organised by Club e-reflexion, which focused on the theme of microfinance.

Marc Odendall believes that people cannot find a place in the heart of the economy if a culture of dependency prevails. 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, and deplored the public's lack of information about this type of initiative. He was amazed that while "microfinance has been available for the last 30 years, most of the public has only heard about it very recently". Microfinance is not 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 US$ to 5 US$ through clever industrial streamlining? Or of Spirulina, the one-celled algae of exceptional nutritive value which some developing countries are starting to grow? Christian de Boisredon then asked: "Why have our all-powerful media not identified and reported these positive initiatives?" The *raison d'être* behind Reporters of Hope is to offset this deficiency by spotlighting such initiatives and encouraging the mass media to do likewise.

Samuel Rouvillois 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 he 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", he said. When it comes down to it, perhaps such wisdom is in fact the only form of truly sustainable investment. ■

Doha Development Agenda

Keeping Doha alive

- *MODERATOR:* **LIZ ALDERMAN,** BUSINESS EDITOR, *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.

Liz Alderman launched the discussion by asking: can the Doha Development Agenda talks be saved? Everyone agreed that the stakes are huge, but another question about realism had to be raised: are Doha's goals too ambitious? Liz Alderman asked if perhaps the "single undertaking" principles were not too risky, as, under an all-or-nothing approach, failure to make progress on agriculture, for example, would block progress in other trade areas as well.

"Why are the talks proving so difficult?" asked Pascal Lamy. "Some say it is 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 do not like it." But Pascal 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.

Pascal 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 a successful Doha round would also be fairer, he said, because new ratios would be established between developed and developing countries, which would mean more flexibility. Pascal 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 he asserted that it is feasible.

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. Néstor 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 this figure has decreased to 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.

Mark Vaile also spoke frankly. Yes, Doha was at risk, and 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 are still talking". As a minister, he felt 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", Mark 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 US$. 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.

Phil Goff and Jennifer A. Hillman

Ingrid Antonijevic responded to the view that the benefits from Doha for developing countries, while less in dollar terms, would spell an enormous jump ahead for poorer societies. She still felt that the current international trade system was skewed too far in favour of wealthy countries. Exports from developing countries continue to 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, Ingrid 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.

Pascal Lamy and Ingrid Antonijevic

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 great deal since 2001; but compare the results with the original promise of Doha and they are not very successful", he 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. Mukhisa Kituyi was worried about crowding out investment, too, and cited the "deindustrialisation" of Kenya, which has replaced factories with warehouses packed with imported goods. However, he did want the talks to keep to defined time limits. Deadlines 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 the talks must realise that there will be winners and losers. To this effect, Jennifer A. Hillman said that mechanisms must be put in place to assure that the countries which stand to lose – like Bangladesh, which could see shrinking agriculture and industry sectors as a result of negotiations – are looked after.

Paula Lehtomäki and Néstor Stancanelli

Mukhisa Kituyi

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 US$ increase for them out of the total 300 billion US$ gain, whereas a less ambitious scenario would see their part of the deal sag to 17 billion US$ out of 100 billion US$.

Jennifer A. 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 for instance meant that a similar delivery could take months.

Trade liberalisation is not a cure-all, Phil Goff reminded the panel. Good outcomes also depend 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 Phil Goff said that the benefits of good management of domestic reform had paid off for New Zealand over time – even if it cost him his seat as minister at the time. "In 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 many Eastern European economies offer clear examples." Obtaining positive results at the next round of talks, he said, means countries should not lose sight of the basic reasons why 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."

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, the EU seemed unenthusiastic about countenancing further reform as part of a Doha trade deal. Nonetheless, Paula 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". She concluded by underlining her government's strong support for the aid-for-trade initiative. ■

Néstor Stancanelli and Mark Vaile

Regional integration and development in the Middle East

Oiling the wheels of reform

- *MODERATOR:* **GÜVEN SAK,** DIRECTOR, ECONOMIC POLICY RESEARCH INSTITUTE, TURKEY
- **RAINER GEIGER,** DEPUTY DIRECTOR, FINANCIAL AND ENTERPRISE AFFAIRS, OECD
- **BASSMA KODMANI,** DIRECTOR, ARAB REFORM INITIATIVE
- **JOHANNES F. LINN,** WOLFENSOHN INITIATIVE EXECUTIVE DIRECTOR, THE 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

Yasuhisa Shiozaki opened the discussion with an overview of the general approach being taken under a joint initiative between the OECD and the countries of the Middle East and North Africa (MENA) to promote regional integration and development, a programme strongly supported by the Japanese government. Yasuhisa 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 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. Rainer 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. Growth will need to be considerably higher than it is today if this is to be achieved.

El Sayed Torky believed that there is significant scope for higher FDI in the region. He said 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. Foreign investors have now been invited to become involved in advising on development, a step that should also encourage greater

Güven Sak

Yasuhisa Shiozaki

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.

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, he highlighted the attempts of the Turkish Union of Chambers of Commerce and Industry (TOBB-BIS) 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.

Güven Sak recalled that Forum 2006 was titled “*Balancing Globalisation*” and noted that the Middle East was an area that desperately needed balancing. “While there is a need for institutional development to achieve this”, he said, “this takes time”. For the people of the Middle East, he warned, “there is no time”.

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

Johannes F. Linn drew on experience in other regions of the world to make a number of points about the process of regional integration, a phenomenon 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 improving a country’s business climate, administrative effectiveness and good governance.

Integration on a political level appears unlikely to proceed rapidly in the MENA region, Johannes F. 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 minimising trade and investment barriers and ensuring good security

Bassma Kodmani

conditions could be useful. 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 European Union might help regional integration, to which Johannes F. 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. Johannes F. Linn noted that indeed resource-rich countries have failed to deliver good government more often than other countries. ■

El Sayed Torky and Rainer Geiger

SUPPORTERS

CONTRIBUTORS

KNOWLEDGE PARTNERS

MEDIA PARTNERS

For more information about Forum 2006, please visit our Internet site:
www.oecd.org/forum2006
Or contact us:
Tel.: +33 (0)1 45 24 80 25 Fax: +33 (0)1 44 30 63 46
Oecd.forum@oecd.org

Register for the Forum Newsletter through OECDdirect at www.oecd.org/oecddirect