Observer Daily Summary, Monday May 22, 2006

Opening session: Balancing Globalisation

- **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

The seventh OECD Forum was launched before a full house at the Kléber International Conference Centre in Paris by BBC's David Eades. Globalisation is a powerful and positive development, but though the public support and acceptance may be growing, as witness the relatively positive atmosphere in the room, serious imbalances had emerged that policymakers must address if that support is to be upheld.

You cannot find a "bigger, more complex and all-encompassing subject" than that of "Balancing globalisation", said moderator **David Eades** of BBC World in his opening remarks to the 2006 OECD Forum. There are no simple answers to the challenges it poses either. In a light-hearted observation, Mr Eades suggests a clue might be found in Douglas Adams' novel "The Hitchhikers 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, Mr Eades has no doubt that globalisation is essentially a positive force, but laments that it has become a "dirty word", and suggests that it is the responsibility of everyone to push its beneficial aspects.

George Alogoskoufis, Minister of Economy and Finance of Greece, spoke of the multi-stakeholder nature of the forum, and the importance of incorporating as many different views as possible in the search for answers: those of policy makers, journalists, businessmen, trade union representatives, academics, bankers, scientists, non-governmental organisations. He contrasted the views of those who see globalisation as a threat - particularly those in labour-intensive sectors of the OECD - and those who perceive globalisation as an opportunity, in which the positive effects far exceeded the risks.

In either case, however, Mr Alogoskoufis acknowledges that "globalisation is a challenge, and that balancing globalisation is the sine qua non condition for successful globalisation". And for this, says Mr Alogoskoufis, it is essential for governments to implement policies orientated towards stimulating economic growth and enhancing social cohesion. "This requires political courage, commitment, and the international coordination of policies". It also means that the OECD should both widen its scope and enhance its working relations with other countries, Mr Alogoskoufis said.

No one should expect to enjoy globalisation for free, and he remarked that countries that benefit from globalisation must play by the rules of the game. The minister went on to conclude that unfettered globalisation is not a win-win situation, and that policy interventions between and within countries are necessary part of making globalisation a success.

Duck-soo Han, Deputy Prime Minister and Minister of Finance and Economy, Korea, provided a strong defence of the benefits of globalisation, bolstering his intervention with evidence from his own country, Korea. "Thirty years ago, a round-the world airfare exceeded the annual income of a Korean worker; today it is just a monthly salary," the deputy prime minister remarked. Mr Duck-soo Han spoke not only of the globalisation of trade, but also of the growing integration of the global markets for capital and labour: "These trends are irreversible", warned the deputy prime minister, "regardless of the wishes of each individual nation".

For Mr Duck-soo Han, the spread of globalisation to countries like China and India has lifted 40% of the world's population out of poverty. Does this mean that globalisation promises prosperity everywhere? "Yes" is Mr Han's categorical answer, although the degree of that prosperity depends upon the internal adaptability of each country. Mr Duck-soo Han also warns that globalisation, by intensifying competition for knowledge and capital, is deepening the disparity between nations and individuals. The labour market need to become more flexible, concludes Mr Duck-soo Han, but social safety nets need to be strengthened to protect those left behind; cross border liberalisation of capital should continue, but prudent regulation is required to contain any economic instability.

Jocelyne Bourgon, Ambassador, Delegation of Canada to the OECD, made an impassioned appeal to balance, and if necessary rebalance, the undoubted economic benefits of globalisation. Stressing the need for the "democratisation" of globalisation, and Ms Bourgon urged the audience to recall that globalization is a not a new phenomenon and the last wave ended in violent conflict at the beginning of the 20th century. This democratisation entails the management of shared risk, collective responsibility, and resolving the current global imbalances in savings, investment and consumption. "None is mighty enough to do it alone, and none is small enough not to make a contribution. The longer we wait before resolving these imbalances, warned Ms Bourgon, the more useless pain that will be inflicted." Ms Bourgon defended the need for a balanced policy agenda, and one that involves three pillars: the market, to ensure the most efficient use of resources; the state, to defend the common public good; and civil society. The OECD Forum was a response to the need to engage with civil society, and Ms Bourgon paid tribute the outgoing secretary- general of the OECD, Donald J. Johnston, for opening up the policy agenda to business, trade unions and civil society through the creation of the OECD Forum in 2000.

Donald J. Johnston, Secretary-General of the OECD, recalled how, in the late 1990s, the organisation's efforts to create a binding multilateral agreement on international investment failed to move forward precisely because of a lack of communication. It was this that encouraged the organisation to enter into an open dialogue with civil society and the establishment of the Forum. For Mr Johnston, the fact that globalisation is still considered a "dirty word" also highlights a communications problem: many of the benefits of globalisation, says Mr Johnston, are simply invisible to consumers, such as downward pressure on prices. But Mr Johnston also acknowledges deeper problems, and uses the graphic analogy of a tightrope walker to describe the current situation. The government is the walker, , and one end of the pole is weighed down by the economic benefits generated by globalisation. But a tight rope walker will encounter serious difficulties if the weight on the pole is not evenly balanced, warns Mr Johnston, and will struggle to make progress along the tightrope. This is the situation in which globalisation finds itself today. The main challenge is to find ways that governments can transfer their weight across the pole. This entails strengthening social cohesion, says Mr Johnston, and for this, dialogue is so necessary.

Angel Gurría, who takes over from Mr Johnston as Secretary-General at the close of the OECD ministerial meeting on 24 May, was a special guest on this panel. Mr Gurría concentrated his few brief remarks on demographic challenges, notably immigration, with its implications in terms of pressures on resources and the environment, as well as its ethical and moral dimensions. Opportunities also lay ahead. "We are ageing in the OECD", Mr Gurría said, suggesting it was time to find win-win ways of dealing with this challenge.

Comments from the floor were pertinent and insightful. One participant urged more effort to address services liberalisation under Doha, since this area could benefit labour-intensive poor countries in particular. Another wondered whether it was not time to create a new global environment organisation which would help to remove the image of globalisation as being hostile to poor country interests.

Reform the only panacea

Revitalising European growth

- **Moderator: David Eades**, Presenter, BBC World
- **Jean-Philippe Cotis**, Head of Economics Department, 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, and none of the lead speakers pretended to offer a 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 for most of 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 Wareing, CEO of KPMG International, noted that competing with the rapidly-expanding, low labour cost economies such as China and India was obviously a challenge, but noted that there were some bright spots in Europe's current economic position. Enlargement is so far proving a success, with the new member states achieving rapid rates of economic growth and boasting high education standards among employees that also display a high degree of motivation.

As other speakers concurred, 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 is in the larger, more moribund economies and could according to Mr Wareing, be improved by nurturing entrepreneurship, and by encouraging new businesses rather than protecting the old. In some industries, such as financial services, European governments could channel more support towards "winners".

Nicholas Nanopoulos, CEO of Eurobank EFG, noted that, in his view, Europe fails to do what the US does best, which is to shift employment away from mature industries and into new, more dynamic ones without producing high unemployment. Although there are a number of ways of improving Europe's ability to follow suit, Mr Nanopoulos highlighted three: restructuring the overly bureaucratic and unproductive public sector, which crowds out the private sector; improving labour market flexibility, including decentralised wage bargaining; and the introduction of reforms in the markets for products and services in a bid to stimulate greater competition.

Jean-Philippe Cotis, Chief Economist of the OECD and head of the Economics Department, highlighted the key constraints on European growth as being deficiencies in government policy, including a failure to reverse earlier policies aimed at discouraging employment of older people or limits on working hours. Moreover, Mr Cotis noted that too little has been done to encourage innovation and research, and that funding for tertiary education is 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. Moreover, more should be done to make the business environment more business-friendly, by reducing red tape and other administrative burdens. The most important reforms would arguably be those that boost competition in the services industries, given that these account for the majority of employment and output.

Taking a different tack, **John Monks,** General Secretary of the European Trade Union Confederation, argued that the now-familiar calls for greater flexibility, particularly with respect to labour market reforms, have come to be seen by employees as code words for lower job security and other potential threats to their livelihoods. The anxieties these threats generate have contributed to wariness towards European projects, such as enlargement and the European constitution, and this has led more generally to an increase in savings that 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 Mr Monks, Europe should be looking north, rather than west, for inspiration.

The debate with the floor focused on the role of institutions and the EU's role in helping to unblock growth. However, from the floor, Lord Watson 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. To another question from the floor about where funds to expand R&D and education would come from, Mr Wareing suggested that EU funds for instance might focus less on infrastructure and more on investing in knowledge. Mr Cotis echoed the importance of R&D and emphasised the need of policies to encourage private sector involvement as well.

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City sense

Cities and globalisation

- **Moderator: Chris W. Brooks**, Director for 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, too. Policymakers should look more closely at their potential, since boosting their competitiveness and liveability, for instance, would bring wider benefits.

"The 21st. Century will be the century of the city, but this fact has not yet been fully appreciated". This comment by **Michael Harcourt**, Chair, Prime Minister's External Advisory Committee on Cities and Communities, Canada, crystallised much of the thinking underlying this Forum discussion on 22 May 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," Mr Harcourt added.

At the same time, **Yazid Sebag**, President of the Board of Directors, CS Communication & Systèmes, France, suggested that " our largest cities have become essential actors in the globalised world economy." Also, activity had become concentrated on large centres clustered around the main urban population zones, and these now monopolised much of advanced nations' human, material and cultural resources.

Stressing a similar point, **Alberto Ruiz Gallardón** Mayor of the City of Madrid, said 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, Mr 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.

"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", Mr Harcourt said.

In particular, he 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, Mr Harcourt added.

By way of example, Mr Sabeg cited the massive investments - some €600 billion - that had been made in urban renewal in France over the last thirty years, and the further €30 billion 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, Mr Sabeg believed. Ghettoes were now a reality in major OECD cities, Mr Sabeg acknowledged, and policies were needed to address this.

Mr Ruiz Gallardón agreed with a suggestion from the floor that increased contacts and cooperation 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" Mr 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 decide and implement policies.

Moreover, with regard to financing city projects, 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, who moderated this session, emphasised the importance of governance as a key driver in making cities competitive within globalisation. The OECD's Public Affairs and Communication Director 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.

Mr 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 plumb jobs in government," Mr 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.

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Digital minds

Information technology - the next phase

- **Moderator: Luca de Biase**, Information Technology and Science Editor, *Il Sole 24 Ore* , Italy
- **Arnoud de Meyer**, Deputy Dean, INSEAD, France
- **Patrick De Smedt**, Chairman, Microsoft Europe, Middle East and Africa
- **Elliot E. Maxwell**, Chairman, eMaxwell and Associates, United States
- **Rachid Talbi El Alami**, Minister Delegate to the Prime Minister, Morocco

Back in 1981, if Bill Gates ever doubted he would one day march Microsoft to its dominant position in the software world, he can blame some rather prudent forecasts. As participants in Monday's OECD session on Information Technology - the Next Phase were reminded, Mr Gates once famously predicted that for personal computer users,"640k (memory) should be enough for anybody". Of course, that limit has been passed over many times since, and today, gigawatts of storage are now common place.

Moderator **Luca de Biase**, IT and Science Editor from Italy's Il Sole 24 Ore, animated a wide ranging discussion on the challenges faced in a world of 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? What the panel seemed to agree 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, INSEAD's **Arnoud de Meyer** foresees the day when we are continuously connected to our information sources and databases. Mr De Meyer calls this "tacit connection", and says it will revolutionise the way we live and work in the next ten years.

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 instantaneously, is not far off.

"The problem here of course is avoiding information overload,**"** Mr de Meyer said, noting that humans will have to adapt to the existence of persistent, pervasive information. "So many aspects of our societies have been founded on the principle that information will be lacking. Even in higher education - I remember when I was a student we had to wait for up to two weeks to obtain information via inter-library loans. Our education systems are still based on this principle of a lack of information. And I can see its results when I look at my students today - some of them have trouble for precisely the opposite reason - too much access to information", he said.

Another new aspect is that technology is pervasive, changing the lives of poorer countries. In fact, several services that are being talked about in Europe, for instance, in m-commerce (transactions by mobile phone), are happening in countries like the Philippines, Mr De Meyer argued. In other words, some OECD countries may be lagging behind developing ones when it comes to technology applications.

Pervasive technology also encourages knowledge sharing, but that also leads to easier pirating of ideas and intellectual capital. But as technology develops, perhaps the extreme example of prosecuting 12-year-olds for downloading music files will go out of style. **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 propriety 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, Mr Maxwell says. 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. Mr Maxwell 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 of Microsoft 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 in accepting products offered to them by companies off the shelf - they want to have a part in the creation process and obtain personalised products", he said. 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. As for bridging the divide with developing countries, he said that Microsoft aims to promote as much access to its software as possible, and it was currently working on business models to achieve this.

Morocco's Minister-Delegate to the Prime Minister **Rachid Talbi El Alami** countered that governments in developing countries like his own were willing to implement laws intellectual property laws, but that product pricing had to stay in step with people's ability to pay. Otherwise, individuals would be driven in the wrong direction and lose respect for the intellectual property laws. The minister reminded the floor that access was not everything, that in countries with high illiteracy rates like his own, the real prospects for participating in the information world remained low. "We're 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."

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'd like to [take] some steps [forward] in development", he said, but added another observation: that it was difficult to participate more in the shared or open information society when the brain drain in Morocco was so strong. Half of the engineers trained each year in Morocco leave the country, Mr El Alami concluded.

In short, 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.

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Europe's Eastern promise

Fulfilling the promise of South-Eastern Europe

- **Moderator: Alison Smale**, Managing Editor, *International Herald Tribune*
- **Gheorghe Copos** , Deputy Prime Minister, Romania
- **Dimitrios Daskalopoulos**, President, Federation of Greek Industries (SEV)
- **Rainer Geiger**, Co-Chair, OECD South East European Investment Compact
- **Gerland Genuardi**, Vice-President, European Investment Bank
- **Michael Mozur**, Deputy Special Co-ordinator, Stability Pact for South Eastern Europe.

European Union member states carry a particular responsibility for moving forward on South-eastern Europe's regional co-operation and development, panelists 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 and Bulgaria-both are looking forward to joining the EU in early 2007.

Romanian deputy premier **Gheorghe Copos** expressed his country's appreciation of OECD support in relation with the EU negotiations and its positive response to Romania's bid for membership. He linked these developments to Romania's heightened attraction to foreign investors-these invested €5.5 billion in 2005, and are expected to beat that 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**, Deputy Special Co-ordinator, Stability Pact for South-eastern Europe, said the Athens agreement had also produced an accord to invest some $25 billion over the coming two decades to meet energy demand. The region's new stability pact covered 90% of all trade, and 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.

Gerland Genuardi of the European Investment Bank 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 EIB 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.

Dimitris Daskalopoulos, president of the Federation of Greek Industries, said 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 change was there and this makes one feel validly optimistic about the future of south-eastern Europe", Mr Daskalopoulos added, in a judgement echoed by others in the panel.

"Change [in the region] over the last fifteen years has been thus 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 Mr Daskalopoulos, "the Balkans may then perhaps overcome their Sarajevo legacy - as the powder-keg of Europe, a legacy by the way which came very close to to resurrection 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."

A modern legal framework has been established. Corruption is no longer endemic. Mistrust has largely evaporated. Administrative burdens have been demolished. The labour force is even more skilled than before. Real estate continues to command competitive prices and corporate tax is on the average at a low rate of fifteen per cent.

Because of size and geography, Greece has had no alternative but to seek to become one of the leaders of this emerging regional powerhouse, Mr Daskalopoulos said. The region naturally offers itself to the expansion of Greek firms, and today there are more than 3,500 Greek firms operating in the Balkans, the President of the Greek Federation of Industries pointed out. With 700 branches, Greek banks hold a market share of 14% in the financial sector there, while Greece is the largest investor in FYROM.

The OECD's **Rainer Geiger** said the investment compact set up in the OECD, of which he was a co-chairman, had proved to be a success. This did not mean the job had been completed, he warned.

In response to a range of questions from the floor, moderator Alison Smale invited panelists to sum up their reactions. Romania's Mr Copos listed the legislative changes that his government had introduced in response to the need for change. Mr Daskalopoulos cited the spread of business acumen which had brought new challenges to the marketplace, while Mr Genuardi said that the investment environment, including for implementation, had greatly improved. Mr Mozur looked forward to the day when the reality of the regional cooperation 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.

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Warming up or cooling down?

Energy and the Economy

- **Moderator: Didier Pourquery**, Editorial Director, *Metro* , France
- **Phillipe Bénédic**, Resident Director General, Asian Development Bank, Germany
- **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

Moderator **Didier Pourquery** introduced this "broad and hot" topic by quickly describing the backdrop to the "dramatic" energy price increases, fuelled by new demand from China and India. Mr Pourquery put two main questions to the panel: first, although the effect on underlying economic growth seemed benign to date, what are the risks looking forward, particularly if prices rise still further? And second, what policies are required to improve energy efficiency and tap alternative energy sources?

David Knapp, Senior Editor at the US-based Energy Intelligence Group, United States, provided a succinct summary of the characteristics of the energy market and how economic, financial and political forces interact to drive the market. Mr Knapp highlighted apparent economic paradoxes of oil: it is highly fungible, yet heterogeneous; demand is geographically diverse but supply is highly concentrated; the lowest cost producer is the short-term marginal supplier; oil projects are long-term, but financial markets react short-term. Mr Knapp has no doubt that we are now in a "sellers' market", for only the fourth time. On the three previous occasions, in the 1920s, 1940s and 1970s, the causes were to be found on the supply side. Now, and unusually Mr Knapp notes, it is demand-led phenomenon and "there is no supply fix for the problem". This, Mr Knaps suspects, will make it last longer.

Finally, Mr Knapp highlights the growing impact of oil derivatives trading in the financial markets, which moves trillions of dollars, making it far larger than the market in the actual product: "there is a very big tail wagging the dog". Mr Knap estimates that about $20-$25 of the current oil price reflects the market's anticipation of future demand from China.

Phillipe Bénédic, Resident Director General of the Asian Development Bank, Germany, points out that there is no "one-size-fits all" response to high oil prices in Asia, because of 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 the region rose by 230% between 1973 and 2003, compared to average world consumption growth of 75%, and now accounts for a 25% of total world supply. "This trend is neither economically nor environmentally sustainable". Sustainable development, Mr Bénédic contends, will depend on three main factors: reliability of supply; energy efficiency, and diversification into alternative energy sources. He cites the example of China, where "GDP is expected to quadruple by 2020, but commercial supply will only double. Energy intensity will therefore have to halve in the next 15 years." Mr Bénédic believes that the OECD's experience, technical knowledge and financial resources can greatly help the region successfully face these challenge**s**.

Padma Desai, Director of the Center for Transitional Economies, Columbia University, United States, made three key points about current energy market developments. First, extra demand is being driven mainly by Asia, but the decline of European gas fields should not be overlooked; second, most energy suppliers still exercise monopoly power and there is no guarantee that they will play by market rules; and third, energy is largely about politics.

Ms 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 doesn't want to be like "a Cocoa supplier to Switzerland, which then makes fancy and expensive chocolate" but wants a share in the value-added. "The recent gas deal between Germany and Russia, involving a swap of assets, is the way to go".

Ms Desai then turned to India and China, and spoke of the success of "equity oil" strategies, particularly in Africa. In return for stakes in their energy resources, China has been investing in Africa-in school systems, cement factories, rail networks-something which is "incomprehensible" for western oil companies. With less financial resources, India is more inclined to develop nuclear power, and political considerations, and the approval of the United States, will ultimately determine whether it moves in this direction.

David Feickert, Consultant in Industrial Relations, Ergonomics and Energy, United Kingdom, 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, says Mr Feickert, "a negotiated multilateral agreement". Mr Feickert agrees that we are in a sellers' market, and prices are set to remain high. He asks whether markets can solve the dilemmas posed by high prices and responds 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, creative regulation."

Efthymios N. Christodoulou, Chairman, Hellenic Petroleum, Greece, sought to temper concerns about the recent run-up in oil prices. For sure, prospects of increasing supply are not great, but there are known reserves for at least 40 years. 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. Mr Christodoulou also insists that, in the final analysis, high oil price 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".

In response to questions from the audience, the panellists also discussed the future of liquefied natural gas (LNG) and biodiesel energy. Both Mr Knapp and Mr Feickert agreed that LNG will expand substantially, and will probably be traded like oil, but it will not be a panacea to the 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 the higher prices create the incentives to innovate.

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A sound investment

Investment for Development

- **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 (SEV)
- **Giorgio Magistrelli** , Secretary-General, European Chamber of Commerce in China

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. The session, Investment for Development, ably moderated by **Luis Eduardo Escobar** from Chile's Ministry of Finance, probed the many facets of how investment promotes economic development.

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

But Mr Escobar cautioned against overemphasising foreign investment as a panacea for economic problems-most investment (about 80% on average) is domestic and policymakers should get their own houses in order. After all, an environment that is not conducive to domestic investment is hardly likely to attract foreign investment either.

In his presentation, **Fanjul Suárez** referenced the current WTO trade talks. A country's trade policy was considered to be a possible asset in attracting investment because it influences both domestic and foreign investment and is important for any development strategy. To begin, trade can either substitute for 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.

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.

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.

Nor is there a single policy instrument to boost inward investment. That means encouraging high standards in terms of transparency in government policy, procedural fairness, openness and corporate responsibility. **Giorgio Magistrelli**, Secretary-General of the European Chamber Of Commerce in China, provided a description of China's implementation of its WTO commitments and the challenges remaining. For example, the government of China has strengthened it protection of intellectual property rights (IPR). In addition, 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%) is between Chinese companies. Also, most foreign companies agree that the present IPR system in China is inadequate.

Ulysses Kyriacopoulos made a number of useful suggestions which would improve the climate for investment and entrepreneurial opportunities. 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 life-long 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's strong analysis described the effects of foreign direct investment on small and medium-sized firms in Chinese Taipei. He concluded that international investment 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.

A participant from the floor commented that the presentations were of little relevance to African countries mired in government debt and strife. This prompted to 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.

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Asset tests

Financial education

- **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

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. But as the moderator **Margaret Hollinger** of the Financial Times said at Monday's panel discussion on financial education: "We're 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 at Monday's conference was that both the public and private sectors should be involved. Citigroup's **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 an US non-profit group, the Jumpstart coalition – an organisation of state agencies, banks, and NGOs – Ms 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. (See www.oecdobserver.org for article by Dara Duguay.)

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, Ms 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's a global problem", the Citigroup director said.

Italy's **Lorenzo Bini Smaghi** argued that financial education is important for central banks because it carries a macro-economic 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, Mr 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, Canada's **William 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 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 life-long 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.”

Secretary-General Johnston pointed to a parallel with healthcare. Health spending is one of the top budgetary concerns of OECD countries, and Mr Johnston proposed tackling financial education in a similar vein as 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, Mr 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 were watching their house prices go up, and then mortgaged them. We don’t know exactly why but 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.

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Beyond safety nets

Structural adjustment and social cohesion

- **Moderator: Lord Alan Watson of Richmond**, Chairman Europe, Burson-Marsteller
- **Iordanis Aivazis**, Chief Financial Officer, Hellenic Telecommunications Organization (OTE), 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 Watson opened the discussion by noting that globalisation was a complex issue that spanned negative events, such as displacement of people, to benign developments such as the integration of global equity markets. Could the current session even hope to settle the whole question of structural adjustment and cohesion in one go?

The first lead speaker, **Jagdish Bhagwati** of Columbia University, would give it a try. He focused his initial comments on the implications of globalisation for developing countries, leaving the other lead speakers to deal with the issues raised for developed economies. In Prof Bhagwati's view, the argument that globalisation and economic liberalisation have led to increased inequality and political unrest, and should somehow be resisted, is superficial. More important in generating unrest in many countries is 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–but not eliminated–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, the Columbia professor said.

Moving on to discuss the steps being taken to deal with globalisation by the developed economies, **Ana Isabel Leiva Diez** noted that globalisation produces social transformations that are difficult to deal with for both developed and developing countries, but also presents 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 cooperate 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 ones, and Mr Manière cited recent street disturbances in France's city suburbs as an example. Although this may seem counter-intuitive at first, he listed a number of reasons why it is the case.

Firstly, 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. Moreover, the political will and, as importantly, the skill necessary to implement reforms smoothly may be lacking. The experience of France with the First Employment Contract (CPE) was a good example of this problem. For the general public to accept that change is necessary, they must first firmly believe that the current situation is bad and must be improved.

For Mr Manière, change needs a trigger, some unforeseen event for people to demand change With respect specifically to France, Mr. Maniere pointed out that there are cultural barriers to implementing reforms, particularly if they appear to be based on an 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 believed.

Can radical change, assuming it is needed, ever be implemented minimising the social costs? **Iordanis Aivazis**, Chief Financial Officer of the Hellenic Telecommunications Organisation (OTE), believes there is a way. His formerly state-owned monopoly, OTE 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 at OTE 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 from the floor were several. 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.

Mr Bhagwati responded, pointing out that as it was the developed economies that caused much of the current environmental damage. Also, was it fair to impose additional tariffs on developing countries in the name of the environment? In Mr Bhagwati's view, these kinds of proposals are thinly disguised attempts to protect developed country markets.

Another debate with the floor touched on immigration. One questioner, in particular, believed that migration caused by weak economic conditions in one country, Senegal, were partly the fault of economic reforms imposed on the country by multilateral organisations in the 1980s. Mr Bhagwati responded that immigration 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 US, Prof Bhagwati warned that even a wall between countries would be scaled as long as there was the "pull of higher living standards." Even if a developing economy were performing well by historical standards, "change would be slow, so the problem of immigration would not be resolved any time soon".

Demographic changes such as ageing also mean that many developed economies will have to import labour in order to maintain living standards. On the issue of migrant worker programmes, another participant raised the point that tight immigration policies increased the incentive for migrant workers to stay on after their permits expired, so fuelling illegal immigration and the underground jobs market.
There was no clear consensus on this panel on how to achieve social cohesion, though no-one doubted that bolstering cohesion was essential to balancing globalisation.

More details on the OTE scheme at www.ote.gr

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When protection works

Creating jobs in the 21st century

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 for 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 Labour-Congress of Industrial Organizations

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, Director, Centre d'études prospectives et d'informations internationales (CEPII) in France.

Given this daunting situation, what policies might encourage more job creation over the coming years?

Anne Krueger, First Deputy Managing Director of the IMF, said that research showed that most loss of jobs in developed countries like the US was caused by internal factors 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," Ms 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**, President, American Federation of Labour - Congress of Industrial Organizations, "measures are needed to balance the effects of globalisation, otherwise gaps will widen between rich and poor, [and between] capital and labour." Mr Sweeney pointed to the effects on world labour markets of the entry into the global trading system of countries, such as China, India and Russia. This arrival on labour markets of some 1.4 billion extra workers "effectively doubled the existing number of workers around the world, and exercised a downward pressure on wages everywhere".

"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," Mr Sweeney suggested. He pointed to China where "there is no protection of workers' rights," and he suggested that if it is good for business to protect industrial 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."

Against the above background, **Basile J. Neiadas**, CEO of OPAP SA, a Greek gaming firm (see www.opap.gr) 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," Mr Neidas believed. He added that good jobs of tomorrow would be knowledge-based and connected to IT. "Environment, advanced production methods and human resources management are also key growth areas," he suggested.

Mr Neidas 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 had to adjust to new fast-changing conditions and "offer stability and much-needed confidence to the public." Policy had to "be a catalyst for change, leading to a better quality of life."

Thomas C. Nelson, Chief Operating Officer of AARP, a US organisation concerned with ageing issues, noted that in many countries there was an impetus towards people working until later in life. A number of factors were contributing to this trend including ageing in many industrialised countries and people's rising anxieties about financial security in old age. Ageing "created both challenges and opportunities." He suggested that if obstacles such as stereotyped attitudes and regulatory difficulties could be overcome, economies could benefit from retaining the skills and experience of older workers.

John P. Martin, an OECD director and employment expert, highlighted some key lessons learned from his organisation's work on jobs creation strategies. He suggested that if the right mix of policies were applied, "labour market flexibility can 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." Mr Martin also stated that efforts to expand product market competition, and to introduce lifelong learning, combined with macro-economic policies that fostered stability were essential elements in 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 suggested 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 six 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 continued. In this context, Mr 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.

Keynote Speech: Overview

Kostas Karamanlis, Prime Minister, Greece

Moderator: Donald J. Johnston, Secretary-General, OECD

see the OECD Observer article: Reforms for growth and prosperity

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