

SESSION SUMMARY

■ SHIFTING WEALTH

- ◆ [Panel 1: Emerging Economies](#)
- ◆ [Panel 2: Trade and Investment](#)

Wednesday 25 May 2011

◆ Panel 1: Emerging Economies

Moderator: **Liam Halligan**, Economic Columnist, *Sunday Telegraph*

Panelists: **Robert D. Hormats**, Under-Secretary of State for Economic, Energy and Agricultural Affairs, Department of State, United States
Pascal Lamy, Director-General, World Trade Organization (WTO)
Anatoly Moskalenko, Member of Management Committee, LUKOIL, Russian Federation
Anand Sharma, Minister for Commerce and Industry, India
Valdemar Carneiro Leão, Under-Secretary for Economic and Financial Affairs, Ministry of Foreign Affairs, Brazil

Discussant: **Sigbjørn Johnsen**, Minister of Finance, Norway

Liam Halligan kicked off this session of the 2011 OECD Forum with several observations about rapid growth in emerging markets. He noted that these account for four-fifths of the world's population, half of global GDP and a majority of the world's economic growth.

He asked **Robert D. Hormats** how the world can make the most of the growth opportunities that emerging markets offer. Mr. Hormats pointed out that growth in emerging economies "is something we should look at in the industrialized world as an enormous plus for the global economy". He drew a parallel with the recovery of Germany and Japan in the 1950s and 1960s and the benefits the world realised from that. He also argued that globalisation entailed significant scientific and technical co-operation, with benefits for developed economies as well as emerging ones, by increasing efforts for cancer research for example. There is "an innovative quality to this globalisation that can be very powerful for all of us", he said. Mr. Hormats emphasized that we are living in a "multi-partner" world, not just a multi-polar one.

Mr. Halligan asked **Pascal Lamy** whether he saw partnerships between developing and developed countries on trade issues, or whether the discourse was more polarized. Mr. Lamy saw progress economically, but considered the political discourse less encouraging. An important political challenge is to cease viewing emerging economies as a threat. In the future, emerging economic growth must become more balanced, he said, citing China and Brazil as examples. Also, he pointed out, this growth is healthy,

but only if it alleviates poverty and becomes more environmentally sustainable. Finally, he said that we cannot discuss developing economies as if they were homogenous, since they develop at different rates and in different ways.

Mr. Halligan asked whether western politicians were doing a good enough job of selling a multi-polar world and whether the candidates for the post of managing director of the IMF were a signal that the west understands the new multi-polar realities?

Anand Sharma responded that a change is taking place, and that it is high time it did as emerging economies are home to most of the globe's population. He took stock of recent economic gains and recalled that earlier periods of economic growth had widened income gaps formed by the industrial revolution. He noted the challenges that the developing world faces today: poverty alleviation, food and energy security. In light of these gains, and the ongoing challenges, "what we are seeing is a rebalancing of the global economy and that is a healthy development". But the international architecture will have to reflect the changing global reality.

Anatoly Moskalenko followed these remarks by highlighting the importance of management and training in emerging markets. "What is also very important is training of managers and of experts from emerging countries themselves." He outlined how Russia's emphasis on this had paid dividends at home. Illustrating that these gains are portable, he said that in Iraq, where others had contributed little, Russian management training had benefited the oil industry by bringing training to workers in that sector.

Mr. Halligan asked **Valdemar Carneiro Leão**, Under-Secretary for Economic and Financial Affairs, Ministry of Foreign Affairs, Brazil whether Brazil's recent economic prowess had changed its aspirations as part of the global economy?

Mr. Leão responded that Cancun was a turning point in trade negotiations. "In the old system, rich countries would come up with a template with ready recipes and we would just join in" but changing economic realities were now being reflected in international forums, he said.

He said that the developing economies had done much to reform their economies, and that "now it is the turn of the rich countries, I am afraid. What we are seeing is that people are resisting reforms in developed countries." Growth was returning, but "The major challenge is how to make this growth sustainable so that the whole world can benefit from it. This is really in the hands of the rich countries".

When asked about the impact of quantitative easing policies (QE2) on developing economies, Mr. Leão answered: "it has been totally unorthodox". Flooding the world with excessive liquidity may help the United States but was "extremely dangerous" for the rest of the world. Robert D. Hormats argued that the US was still a net capital importer and that QE2 was introduced not to push the dollar down but to try to maintain a reasonable rate of economic growth, which is also very important to the rest of the world's economies.

Mr. Lamy was asked if he could comment on the status of the so-called Doha Development round of trade negotiations. Mr. Lamy stated that there was agreement on 19 out of 20 issues, and that the negotiations hinged on industrial tariffs. As talks worked on the principle that "we agree on nothing unless we agree on everything," for the moment, he said, they were stuck.

Mr. Halligan asked Mr. Moskalenko whether Russia still wished to join the WTO given the increasing number of bilateral agreements it has signed. Mr. Moskalenko stated that both President Medvedev and Prime Minister Putin have reiterated Russia's interest in joining the WTO. He also noted that Russia is a candidate to join the OECD and that joining the OECD Working Group on Bribery (during OECD Week) demonstrated just how eager Russia was to join these global institutions.

Mr. Halligan turned to inequality, and cited Brazil's situation. Mr. Carneiro Leão reminded the panel of the increase in social mobility that Brazil has seen over the past decade. He forecast that if current growth trends continued, extreme poverty could be eliminated in Brazil by 2015, with substantial reductions to overall poverty by 2020. Mr. Carneiro Leão went on to question the legitimacy of the OECD in the G20 process given its relatively limited membership.

Sigbjørn Johnsen said that a major challenge that emerging economies faced was how to use their trade surplus to meet the needs of their populations, particularly of their labour forces, which he said were these countries' greatest asset.

A participant from the University of Western Australia said that protectionism was only a step away from nationalism, and asked how the global community could avoid this threat. Mr. Carneiro Leão said that economic nationalism was most recently rekindled by France, which moved to prevent a major merger involving a foreign country. But if by economic nationalism Mr. Johnsen was referring to protecting a country's natural resources, this was the sovereign right of any country and Brazil would ensure that it protected its finite resources.

◆ **Panel 2: Trade and Investment**

Moderator: **Narayan Lakshman**, Special Correspondent, *The Hindu*, India

Panelists: **Karel De Gucht**, European Commissioner for Trade, European Commission

Lord Green, Minister of State for Trade and Investment, United Kingdom

Augustin de Romanet, CEO, Caisse des Dépôts, France

Levin Zhu, President and CEO, China International Capital Corporation Limited (CICC), People's Republic of China

Discussant: **Mario Pezzini**, Director, OECD Development Centre

Narayan Lakshman started this session by alluding to protectionism, too. He noted China's rise as the leading trading partner of India, Brazil and South Africa, as well as the large external deficits and lackluster economic growth in the US and UK economies. In this unbalanced economic environment, he asked, "how can we ensure that a tendency towards trade protectionism is avoided?"

Lord Green acknowledged that protectionism is indeed the danger we have to worry about, and argued that free trade is vital. "Sustainable growth will only come through a more successful external performance, a more effective competitive engagement with the international economy. Trade is central to sustainable growth".

For developing countries, Lord Green argued, open trade also helps countries improve their countries' infrastructure. For instance, through increased trade of its rich natural resources, Africa has successfully been able to boost investment in social welfare and public facilities, he said. **Mr. Lakshman** pointed out that often it appears that the US is on one side of trade negotiations, with China, India and Brazil on the other. Where, he asked, does Europe stand on Doha?

Karel De Gucht underlined Europe's recent proposals to "unlock" the Doha negotiations, saying that "Europe was the only stakeholder willing to make a deal". But, he warned, "new ways of protectionism are surfacing ... measures that have come about during the crisis are very difficult to make away with". He reiterated that a deal was possible and that it would have far-reaching benefits for all of the world's economies, including the EU and the US.

But Mr. De Gucht warned that despite the economic progress made by some emerging economies, they are still being treated in the way they were when they were much poorer. This has resulted in important asymmetries in the WTO negotiations which must be addressed if a deal is to be reached.

Levin Zhu believed that open trade was beneficial, with particular benefits arising from specialization and process transformation. "It's not about shifting wealth, but really about changing the pattern of growth," he said. In a climate of rapid economic growth, there is a need to have "some systematic mechanism to address these transformational issues" that accompany shifting patterns of growth and trade, he said.

Mr. Lakshman then asked whether it is possible to reconcile the benefits of open trade with concerns of social equity and justice. **Augustin de Romanet** echoed Mr. Zhu, stating that the question was not so much about finding the reasons behind shifting wealth, "but to concentrate all our efforts on what is now a major issue, which is sharing growth....it is not because the plate of my neighbor is filling up that my plate is emptying". He said that OECD countries should create the conditions necessary to encourage exporting countries with large surpluses to invest in the rich world. This could, for example, provide funds for much-needed infrastructure investment. Both emerging economies and the OECD countries would benefit from this. It is therefore vital, he pointed out, that developed countries are careful not to hinder investment.

Lord Green was asked about the growing role of emerging market actors as investors in the developing world. He acknowledged that some investments were not beneficial to the recipient country, but said that overall, the pattern was mutually beneficial. Mr. De Gucht said that, in Africa, China invested only in raw materials, and that the terms of trade offered were sometimes questionable. He wondered whether this pattern actually promoted sustainable growth.

Mario Pezzini closed by underlining the need to identify best practices and policies, and urging developed and developing countries to exchange policy experiences, including those needed to promote sustainable growth. Mr. Pezzini said that the benefits of trade must be made to reach everyone in developing countries. That, he pointed out, required good policies to address rural, as well as urban, challenges.

RT/ PS, CC, FZ, PP