LIONEL ZINSOU

Chairmand and CEO, PAI Partners

Thank you, Mr. Chairman. I am going to try to speak from the point of view of a business operating in the financial sector, Paribas industrial affairs. This is a private equity firm. It is the leading investment fund in continental Europe. It deals with capital investment. It is a portfolio of around 15 businesses that represent around 20 billion euros of turnover and 150,000 employees. They are companies that we acquire, that we develop, and that we then sell on. We are part of the real economy and at the same time part of the financial sector, but we fall under what ECB President Trichet referred to as the “non-banks”. These “non-bank” financial institutions are going to need a bit of work in terms of regulation.

At the same time, we are clearly in the world of the real economy: 15 businesses, 20 billion euros of turnover and operations in 200 countries in a fairly diverse range of sectors is fundamentally a kind of modern conglomerate. That’s a flavour of what I’m going to talk about. So many things were said so eloquently this morning that what I think I’m going to do, Mr. Chairman, is talk about what is going to happen in the future, as one of the rules you laid down in your introduction was, “And let’s try not to talk about what we’ve been doing over the past two years, but what we’re going to be doing tomorrow.” I have to say that our colleague Kemal Dervis has already given us a vision of the future. He spoke, taking the Turkish example, of something that we in our sector are absolutely obsessed about.

When we look at the problems of monetary and financial governance from the point of view of emerging markets, developing markets, and businesses that operate in these markets, we’re not talking about the same thing at all compared with the most advanced countries. The governance problems, the problems that seem to concern the majority of people here, are not the same at all. I think the only speaker to have reminded us of this to some extent was Kemal, when he said, “I’ve just got back from Istanbul.” Well, I’ve just got back from China. When you get back from Istanbul or China and forecasts for economic growth are in two digits, you’re more inclined to be concerned about the monetary and financial problems of the economy overheating.

A significant proportion of the world is looking for ways to avoid asset bubbles: what should be done when we have interest rates within the OECD that are clearly too low — which is the problem Kemal raised — and an excessive level of capital being attracted to emerging markets. I was thinking about a conference I was at a fortnight ago with our investors, the people who invest in our funds and take the risk of lending us a few billion euros for 10 to 13 years. It was one of our Indian colleagues, a leader in private equity in India, who said, “The problem in India is that asset price inflation for our businesses is now so high that they are overvalued in the order of 20%, because of the introduction of foreign capital.”

In this instance he was referring to the arrival of the big global private equity firms like CVC, Carlyle, KKR, etc. It’s a big problem. “Everyone turns to us to take advantage of the growth, telling themselves that the capital yield will be exceptional. But what I see, from the point of view of the leading private equity firm in India, is that imported asset price inflation is going to destroy asset yields.” I think it’s important to say it in Marrakech even if we can congratulate ourselves on everything that has been achieved in the field of monetary and financial governance in the wealthy third of the world which, first of all, only represents a third of the world and which is also increasingly less wealthy.

I think we need to talk about another world, which also needs good governance and which is overheating. I think we need to talk about that too. Earlier we were talking about the Turkish point of view because the emerging world begins in Turkey. Over lunch, I tried to express an African point of view, because when you get too many Europeans in the same place, it's tempting only to talk about Europe and the remains of our empire. We are in Africa, which is not facing any problems in terms of cash injections from the central banks, restrictions on the activities of the primary banks or control of the systemic risks apparently created by the "non-banks". Quite the opposite. But I was very struck – when I was in Asia recently – by the fact that it's all the same. The same psychology. What I mean is, that the question is absolutely not about whether we are going to need to control the "non-banks".

The question is how to develop private equity and alternative investment as quickly as possible. The question is not about wondering whether we are going to apply Solvency 2 and whether we are going to prevent insurance companies from investing in shares in Asia. The question is how much has been authorised since last week in Chinese life insurance to invest in the alternative sector across the world. What we're talking about are hedge funds and private equity. The answer is: 200 billion. I'd like to bring this up as part of the discussion because decoupling is not simply about saying that we're experiencing very strong economic growth. It's about economic growth that is both very strong and unbalanced. This year, the BRIC countries will post growth of around 7.5% and The Next Eleven, as Goldman Sachs calls them — the next wave that is about to emerge — will post growth very similar to that of the emerging countries. Africa is on course for growth of 6% and Latin America for 5%.

That's not the only question. Decoupling is not solely measured in gross revenue by volume. Gross revenue by post-inflation value at exchange rate (with what was said this morning about the increases in the value of currencies in emerging and developing countries) is also a useful measure. In volume terms, growth in Africa is four times higher than it is in France, but growth in emerging countries by value at exchange rate is ten times higher than growth in Europe. Decoupling, expressed in value at exchange rate, has nothing to do with it.

Because of the violence of the decoupling in world economies, we need to manage the imbalances: slow down the level of capital entering emerging countries, limit the increase in value of their currencies, activate their savings surpluses and stimulate consumption.

This is something we see in all the businesses in our portfolio that operate in these markets. Our problems are the opposite of those in the rest of the world. Africa has 500 billion of foreign exchange reserves in African central banks. That equates to 50% of GDP. We don't have a set view about activating them. We have the same level of reserves as in the Russian central bank and we have about a quarter of the foreign exchange reserves in the Chinese central bank. The current account surplus in the Maghreb alone is ten times the size of the current account surplus in the European Union. We therefore need to bear in mind that the developing world no longer poses the same problems of governance as the developed world. A very fine book has just been published on the theme of "dewesternising the world". The world is beginning to do without the West, which has failed to notice. (Hakim El Karoui – Réinventer l'Occident – Flammarion 2010).

There are the problems in the Chinese property market. There are the problems in the business asset bubble in Asia. There is the problem of the "arable land" asset bubble in Africa. There is the problem of other asset bubbles: oil and mining concessions. It is how we damp down the overheating by rebalancing domestic demand. It is not how we inject cash into the economy in an unconventional way to avoid a double-dip recession. We need to get to the point where we can think about both things together. One thing I do just want to say, is that international businesses are living through this every day.

Why? Because businesses live in a world which believes that monetary governance consists of supporting the economy artificially, but they also live in a world where monetary policy tries to damp down business and as that's how they grow their turnover and how they grow their profits, they are increasingly involved in the world. That's where the consumers are. That's also where the long-term savings market is. It is the Asian, Latin American and, dare I say it, African sovereign funds and financial intermediaries that will take over from long-term savings in developed countries and which are going to attract a significant proportion of global assets. Even countries with current account deficits, such as India, are creating their own sovereign funds.

Equity funds will be financed from savings from poorer parts of the world. The caricatural image of the savings of farmers in China or Chad financing consumers in wealthy countries because they have savings rates of 40% is an accurate one. It is a caricature. It is whatever you wish. But it is what is going to keep Europe supplied with capital. It is what is going to create value for European businesses.

The final point I just wanted to make, Mr. Chairman, was to focus the spotlight elsewhere and say: There is one other complication that only Kemal referred to, which is that we think of the world as paradoxical because we are having to think about managing recovery and managing overheating at the same time. Trying to avoid the past excesses of our banking systems. Effectively, dealing with the “non-banks”. And then, there’s the rest of the world, where the levers are going up and where we have to manage the opposite situation, damping down a sector that is overheating. Dealing with both forms of governance is no easy task. It was these two forms of governance that I wanted to draw your attention to.

Jacques Mistral, Director of Economic Studies, Ifri

And so, without further ado, I shall hand over to Pier Carlo Padoan.