LIONEL ZINSOU

Chairman and CEO of PAI partners

My name is Lionel Zinsou. I believe I was invited for two reasons. The first is that from a certain perspective, I am a French financier because I am the CEO of a private equity firm called Paribas Affaires Industrielles. From another perspective, I am an African citizen because I am a citizen of the Republic of Benin and at times a special advisor to the President.

I will try to speak from the standpoint of these two identities on the vast topic you asked us to address. But first I wish to express my appreciation for being invited here, my gratitude for the warm welcome I have received in Morocco and my pride that this conference is taking place on African soil.

I am going to speak as a sub-Saharan African because we are not very well-represented at this conference.

I would just like to say three very simple things. On the future of capitalism, the recent crisis gave us a lesson in optimism, as our American colleague just said; economic policies and coordinated national policies were powerful and effective. In the end, the financial crisis, which gradually gathered speed from July or August 2007 to September 2008 and greatly intensified in September 2008, was brought under control exceptionally fast.

It was managed exceptionally fast. It is, however, striking that in November, all the large central banks, including the Bank of China, acted the same way and coordinated their interest rate policy at the same time on the same day. It is also striking that the central banks, beginning in the summer of 2007, were incredibly effective in setting up liquidity channels at a time when private liquidity was in short supply.

If there is one very positive sign for the future of capitalism, it is that in the financial sphere, we just lived through a full-scale, incredibly intense crisis in which the public, monetary and government authorities were exceptionally effective and well-coordinated. We made regulatory progress because we made spectacular progress in coordinating regulations.

From January or February 2009, some would say the banks returned to their bad habits, but the statistics say that they went back to providing liquidity to the economy and did so profitably. In fact, the incredible level of liquidity stress in the fourth quarter of 2008 came to an end, a period that was to finance a little bit like water stress is to arid regions. The idea that liquidity would never again be available, including to large companies, only lasted 120 days, which in itself is an extraordinary lesson in government effectiveness. We may regret that the governments acted more slowly than the central banks, but in reality, as evidence shows, it is relatively simple to regulate the financial sector even under extreme conditions.

When I was teaching economics to children, we were already explaining that there are mechanisms for increasing credit that make it necessary to ration the money supply and maintain a cash reserve ratio. Finance is a sector in which you have the means to either ration or expand the supply. And you nearly have the means to regulate the demand for liquidity. What's more, you overdetermine this by having the ability to make rate policies, so you are regulating volumes and prices at the same time.

There are very few markets in which public authorities and several dozen people around the world can impose regulations, and that is not at all the case in the agricultural, mineral or oil markets.

If there is one idea about this crisis that has been particularly wrong but remains tenacious, it is the idea that excessive financialisation of the economy was the root cause of the crisis. This is a weak argument in my opinion: financialisation of the economy is something that will last because it is necessary. It led to exceptional growth during the first decade of this century and will remain a necessary condition for growth during the second decade, whose capital needs for infrastructure, water, agriculture and energy will be just as high.

An emotional debate is raging in public opinion about the return of questionable compensation practices, the return of speculation practices and the return of market volatility practices encouraged by certain technical tools. But this also means that the financial sphere has recovered, that the financial crisis is behind us and that all the people who had predicted that finance would never return to normal were fortunately mistaken.

In the field of monetary and tax policy – financial policy in general – we have made lasting progress. There is little risk that we will soon see excesses destabilising the world economy as strongly as before. With a bit of good will, we even know how to uncover the dark side of the financial sphere because we are able to curb tax havens and expand the scope of regulated markets and transactions.

The second thing I would like to say: unfortunately, in the "real economy", it is much more difficult to regulate supply, demand and prices for goods and services markets. And in this area, we are gearing up for a new crisis. So it is reasonable to meet in Marrakech and ask professional policy makers: what if we try to avoid the next crisis? It will be difficult, but at least we should think about acting quickly during the next crisis.

Because I am from Benin, I have to tell you that we did not experience the crisis the day that Bear Stearns bank closed two funds. Instead, it started a year earlier with the hunger riots. Knowing whether the Lehman Brothers bankruptcy has left us a net-net liability of $50 billion is not what will herald the next crisis or challenge capitalism's popularity or spark rebellion by a certain number of nations. Instead, it is a technical problem that is more difficult to resolve: as the economy begins to overheat, knowing whether oil is going to cost a lot more than $80 a barrel; whether grain and dairy products will double in price in one year, which is most likely; and whether minerals, which have begun a strong upward trend, will double in price as well, which is also most likely. Signs point to an overheated economy. Not in Europe, where we still think growth will take a double dip and could be very slow. In the rest of the world, we know that nothing has been done about the bottlenecks that emerged in 2007.

We are now experiencing the type of vigorous growth that has all the hallmarks of an overheated economy and that will have the same effects on the supply-demand imbalances that my colleagues discussed. It appears that nothing has been resolved in the real economy's major markets. Grain on the world market still represents only 10% of the total harvest and dairy products only 5% of global production. The same holds true for many of the typical scarcities, which means that during the period of growth in 2010 and 2011, we will again witness events as serious as the hunger riots. In 2009, Africa, like Asia, was a continent that did not go into an economic recession. The financial crisis was not cause enough. But, like Asia, the recovery may create a major social crisis due to the intolerable co-existence of strong growth with a sudden spike in poverty.

So a World Policy Conference provides an opportunity to ask "the developed countries to kindly spare us external crises due to their own regulatory and investment failures".

Africa's problem – and I am saying this on African soil – is not to attract the world's pity. Africa withstood this crisis. I do want to say, however, that those that are going to suffer the next crisis – which will be one of scarcity and an imperfect commodities market – will certainly be the poorest countries due to actions taken by the wealthiest countries.

I find the discussion this morning to be very important. Are we moving towards a type of capitalism that will regulate the financial sphere? It's done, it's easy, it's fast. But agriculture, subsistence, the major scarce raw materials and the problems of energy scarcity are a lot more difficult to manage. If we really think about it here, at the World Policy Conference, those are areas with far more complicated regulatory mechanisms. You can see the crisis coming; it's obvious. The same causes from 2005-2006 will lead to the same effects in 2010-2011. A portion of the world is asking for help. The International Monetary Fund greatly needs three times more resources, but it is absolutely dramatic that the WFP's resources are largely depleted.

The Doha cycle is important. It is essential to open world markets, which are still too tight, but it is even more important that the G20 countries committed $20 billion to support trade flows. We need massive growth, not a reduction, in the exchange of goods and services. The markets are imperfect and small, and scarcities exist so we must work on the problem of scarcity in the real economy.

I will end with somewhat paradoxical comments on the future of capitalism. Financial capitalism is working rather well. When it has spasms, we regulate it. I am more worried about "very real capitalism".

Lastly, a significant change occurred in the previous decade: the countries that save, the countries that hold balance of payment surpluses, the countries that invest and will continue to invest their surpluses in all asset classes turned out to be the poor countries.

There are obviously surpluses in China, India (despite its balance of payments deficit) and Africa, where – excuse me for saying this – there is $430 billion worth of external assets in the accounts of central banks. Because we have grown accustomed to receiving aid, we say, “The world must lend us $50 billion to bring us out of poverty”. But there is $430 billion in the coffers of African central banks. Yes, it’s true they are in Libya, Algeria, Nigeria and Angola, not in the 53 countries of the continent. But even my country covers 18 months of imports with its foreign exchange reserves. So something has happened throughout the emerging and developing world: this world is now on the front lines to finance and produce growth, and the global markets’ new balance will now mainly depend on this world’s industry, energy, agriculture and infrastructure.

The world that will drive capitalism will be an Asian world – every piece in the Asian puzzle, from the shores of the Mediterranean to the China Sea, from Latin America to Africa. And the reason seems obvious: to practice capitalism, it’s better to have capital. To create capital, you have to save money and in my country, where people earn $1 a year, they save 20 cents. In China, people earn $5 a day and save $2. That is why there is capital, why capitalism will be around for a long time and why it will change colours. Thank you.