

## DEBATES

### Jacques Mistral, Head of Economic Studies, Ifri, Head of Economic Studies, Ifri

Thank you very much. I would like to thank the three panellists for their three complementary presentations, which open up a vast range of subjects for discussion. Let's open the debate to the floor. I suggest we take two or three questions and then let the panellists answer all of them together.

### Jacques Lesourne, President, Futuribles

I have three questions or remarks to make about your presentations, which were all excellent. Firstly, I would say that I agree with 90% of what Lionel Zinsou said and I believe his view of reality was accurate. As I was listening to him, I wondered if there weren't perhaps 10% of blind spots. I'd like to say something about blind spots. I think that many of us here were impressed by the book *This time is different*, which explains that, periodically, there are economic crises which always arise from the financial and monetary system. The authors have been monitoring such crises since they have been able to gather statistics. This covers all of the 19<sup>th</sup> and some of the 20<sup>th</sup> century and even slightly earlier. As I was listening to you, I said to myself, "Am I not just listening to an American banker of 1925?" The fundamental question is as follows: will the next major recession, if we hear you, will not come from the Asian financial system, i.e. the financial system you were talking about?

Rather than saying, in the current debate, "Our problems aren't taken into account," I think we need to say two things. It seems to me there are two questions in the current debate and, thanks to you, we have managed to keep them separate. The first question is: how do we establish a global financial and monetary system that doesn't result in periodic economic crises? The second question is fundamentally quite separate and should not be confused with it, so you were right to distinguish them, which is: what in particular is being done in the ex-OECD world? Namely, a world of slow growth, representing a decreasing share of global GDP and of the world's population. It was my first comment.

My second question is for Professor Pier Carlo Padoan. I agree, of course, with everything he said about the international monetary system. But I was surprised that he did not address a basic problem either this morning or this afternoon, which is that fundamentally, all businesses make their investment and product location choices on the basis of the exchange rates they observe. All market efficiency theory, whether you believe in it to a greater or lesser extent, is based on the fact that prices are significant and in particular that exchange rates have an impact from that point of view. If that is not the case, it means that all our economic systems, in the real economy, operate on the basis of decisions that have nothing to do with a logical allocation of resources and that are simply an expression of the imperfections in the international monetary system, on the choices businesses are forced to make. I'm not saying this is the only thing that needs to be taken into account. I'm not as naive as all that. But I do think it's curious that in the two discussions this morning and this afternoon, fundamentally, the problems of the impact of the financial system on the substance of the economic system in different countries were not addressed. I don't have the answer.

I have just one thing I'd like to say about Gordon Smith and I think I support everything he said too. What I want to say is that in terms of world governance, over recent years I have seen the Security Council as a kind of blocked club system. I say blocked because of Europe. As long as there is no possibility of having a European representative, we will not be able to reform the Security Council. I can't see two of the permanent members accepting it, in any case not Great Britain, and if Great Britain won't accept it, why would France, which would be perhaps more willing? Secondly, two systems: the "fair" or "forum" system. This is the system that led to Copenhagen. It's the United Nations system, 200 nations, with everyone negotiating. Fundamentally, we're going to have to start again because it has not produced a system for dealing with the climate or environmental issues. Indeed, the club system you referred to, choosing your words more precisely and more wisely than I did by calling it the Global Steering Group is, in my view, an absolutely inevitable intermediate step in global governance.

But you implicitly raised the question: is the G20, as some said this morning, moving towards a sort of 'governing board' for the IMF, which would tend to restrict its remit, or is it moving towards more of a 'Steering Group' model, which would deal with major economic, monetary and environmental problems? I'm not talking about politics because we have the Security Council for political problems. We saw that President Bush created the G15 to try to make progress in energy negotiations, obviously based on the theory he had at the time. The G15 was largely made up of the same countries as the G20, because in broad terms they represent the same percentage of the population and of energy consumption. For myself, I have to say that my preference would effectively be to enlarge the role of the G20 and the use of fora so that they would play a part in everyday social and political life. That does not mean they are not extremely useful. Either as a means of recording by ovation what has been decided in the Formal Global Group, or as a way of stirring things up a bit so that problems are brought to the attention of governments and public opinion. I'll stop there.

### **Meir Sheerit, Member of the Israeli Knesset**

I am Meir Sheerit, member of the Parliament of Israel. I have been Minister for Finance in the past. What I feel is that nobody has any solutions to the situation today. Therefore, we hear much more talk everywhere with no solution. I do not think that any country can really compete with the situation which exists. There is a big confusion about the monetary situation, and every country is trying to protect itself, which creates a lot of tension between countries.

One of the points I want to raise is that most of the money is in the hands of people, of regular people, who understand nothing, regarding money exchange or global economy, nothing. I could ask you in a very simple way, 'Tell me, what will I do with my money?' That is the question I hear from people: tell me what to do with my money. When he goes to the banks and they give him almost 0.5% interest if he puts his money in there for a year or two, he is very tempted to go to the stock market. He is risking his money again and the bubble is going up. Actually, it is going up in Israel; the stock market in Israel is at its highest level ever.

People do not want to put money in the banks, not because they are afraid of the banks, but because there is no profit, or a low, low profit. Somebody will have an answer for the people regarding what to do with the money. That could be the answer for the global economy, because a lot of the money is in the hands of the people, and they do not know what to do with it. Some people put it into real estate, because they think real estate is a good investment. It will go up in the future. Everyone in the world is inclined to think that that is the only channel they have for investing the money. It is not an asset.



Last week, the Convention of the International Monetary Fund (IMF) finished in the United States without any conclusions. There were a lot of talks and quarrels; they came out of the Monetary Fund Convention with nothing. There is quite a risk of a fight between the United States and China and other countries. The United States has permission to print as many dollars as they want. Take into consideration that last year, they had a deficit of USD1.29 trillion. The only way they can cover it is by printing money. When they are printing money, they are using the level of the dollar to compare to other countries, in order to make their exports better.

On the other side of the world, the Chinese are controlling very strongly the rate of exchange of the Yuan. The United States believes that the Yuan in China is now 40% higher than the real value. It is 40% lower than the value which it is supposed to have. Therefore, there is quite a big fight among themselves. This fight could create tension in the Monetary Fund and create a high level of tension in trade. It could lead to a fight regarding trade. It happened in 1929, when different countries started to put in protections and prevent imports of products from one country to another country.

I will end by saying that I do not believe that any steering committee can solve the problem. I believe that in a way, they should come to some agreement regarding what to do to prevent the risk to every country, by highlighting the risks for all the countries. If they understand the risks, most of them will agree to cooperate and maybe come to a solution.

Another fact: for the last two years, the Governor of the Israeli Bank, Mr. Stanley Fischer, has been trying to keep the value of the shekel against the dollar at the right level. He bought tens of billions of dollars to try to keep the dollar value higher. That created a big loss for the Government of more than ILS20 billion. The Governor of the Israeli Bank began to be criticised by all the politicians in Israel, who said, 'How come you lost so much money if you understand money? Maybe you are doing wrong. Let the dollar fall; do whatever you want.'

There is a big, big quarrel everywhere in the world. In my opinion, many people do not understand the risks. Maybe we should go to the simple people and try to find out what they like to have. In my opinion, maybe the Government will suggest a situation to the ordinary people, in which they put the money back into the bank. They can create savings by supplying some kinds of benefits. A lot of money will go over there; this will reduce the tension that is going into the markets.

#### **Jacques Mistral, Head of Economic Studies, Ifri**

Thank you very much. We will try to answer both questions at the same time, namely what should your electors and the governor of Israel's central bank do with their money. Stanley Fischer?

#### **Stanley Fischer**

I think the way citizens understand the concept of governance is an important point. My question to Lionel Zinsou and Pier Carlo Padoan in particular was as follows. I understood the analysis of the situation of countries with a surplus as explained by Lionel Zinsou in particular. But what will motivate countries with a surplus to introduce the structural reforms that have been referred to? I'm still unsure about the chain of events. In any case, Lionel Zinsou focused on

the question of surpluses. Professor Padoan focused on structural reforms. But what will motivate countries to introduce them? It seems possible to imagine that there could be a form of governance that could trigger the process, but what is it? That was the main question I wanted to ask. I'd also like to make one slightly tangential observation, which is that in the categories you have described, in which you could include quite a number of countries, I couldn't see which category Russia would go into.

### **Ahn Ho-Young, Ambassador-at-large for the G20**

I think I had better start by introducing myself. My name is Ahn Ho Young. I am the Deputy Foreign Minister of South Korea. These days, I am wearing two hats: one as Deputy Foreign Minister and another hat as the Outreach Ambassador for G20. In my second category, I travel quite a lot. I am attending quite a large number of seminars as well.

However at the same time, I have a confession, in the sense that this is such a change for me to be attending this World Policy Conference Seminar here in Marrakech. It is one of my rare appearances at a conference in the francophone world. I came to find that difference in the language does not only mean a difference in the language, but also a difference in thinking and a difference in perspective. There is a difference in the approach to finding answers. I find this so interesting and it is a very happy experience for me.

Having said that, I have two comments; the first is a comment and the second is a question. The comment is with respect to the point which has been made by Ambassador Smith, describing G20 as a steering committee. As I told you, I attend a large number of international conferences and I hear a repetition of the same theme again and again. This is that if there is any constructive role to be played by G20, it is to be as a steering committee. Regarding the universal global governance, there are thousands of institutions. If there is one thing which distinguishes G20, it is that it can solve the problems of the thousands of institutions as their steering committee. That is something I hear in many different places.

One thing I continue to tell myself is this: we should be very, very careful when we say that G20 is a steering committee. Let me try to share this experience with you. Several weeks back, I was invited to speak to Nordic countries. There were eight of them: four Scandinavian countries, Iceland and three Baltic states. I came there and I was quite impressed; there were eight countries, but from each country, there were at least three representatives. They were three representatives at very high level. Most of the countries sent Permanent Secretaries to the Treasury, Foreign Affairs representatives and Deputy Chairmen of Central Banks.

I was wondering why this was the case and what I came to find was this: the meetings took place in late August. Earlier in the month, there was a decision from the IMF and the decision was that the United States said no to the election of 24 members of the Executive Board. Those eight Nordic countries were very concerned about the possibility that this development, in which the United States was vetoing this election. This could mean that they might lose their seats on the Executive Board. Each one of them asked, 'Who is the G20? You are bigger guys, making important decisions behind our back and then imposing them upon institutions where we are lawfully represented.'

That was the message which came again and again from those eight countries represented. This is not the only experience I had. As a result, I tell myself again and again that we should be very careful, when we say that the G20



could and should play the role of steering committee for a large number of institutions. At the end of the day, for one reason or another, I think it is unavoidable that the G20 should play this role. That is the comment I wanted to share with you.

The second is a question and the question is addressed to Lionel. I found the presentation by Lionel, as well as the one by Mr. Padoan, very interesting. They were looking at two different aspects of the international economic questions, but they were also looking at it intellectually. I thought both of the comments were made on the same observation. This relates to the very close relationship between the real economy and the monetary economy. Both of them came from different perspectives, but were based upon the same intellectual observation.

I was listening to Lionel, who talked about the kinds of economic situation that we have in the advanced economies and the problems we have in emerging and developing economies. These are very different. If the situation in the real economy is different, then maybe the financial and monetary regulation may be different. I was listening to Lionel in French, so I am not claiming that my understanding was correct. I think he said, '*le probleme inverse*,' in those emerging and developing economies.

If that is the case, I wonder; this is a fine observation, but what would the policy implication be? That is to say that if the problem is the inverse, are you suggesting that we need a separate set of monetary and financial regulations for emerging and developing economies? Or would it be the case that one set of monetary and financial regulations only could apply to both developing and developed economies?

At the same time, would there be certain modifications? There could be prosaic reality, in the sense that there is provision for prosaic reality. Prosaic reality was written in there. There was an observation that prosaic reality was working in such a manner as to aggravate the financial crisis in 2008. Addressing the prosaic reality would mitigate the future impact. At the same time, I was just wondering if these same conditions could make it possible that one set of financial and monetary rules could apply to both developed and developing and emerging economies. This would depend on the flexibility provided by those conditions.

There is also the question coming from our friend, the commentator. Where does Russia fall? This is a very good question. In Toronto, we came up with the policy recommendation according to the famous Pittsburgh Framework, with five different sets of recommendations. One set is for advanced deficit economies; the second set is for advanced surplus economies. The third set is for emerging deficit countries; the fourth set is for surplus emerging countries and the fifth is for all participant countries. There was a separate set of recommendations for Russia.

#### **Jacques Mistral, Head of Economic Studies, Ifri**

Thank you very much. First of all I would like to thank you for being here, because the preparations for the upcoming presidency of the G20 are an onerous task. There are a few of us here, including Kemal who has slipped away, Gordon and myself. A few of us were in Seoul a few weeks ago. We are obviously very appreciative not only of the quality of the work done by the Korean presidency to prepare for the summit, but also of its truly historic significance, namely that it is Korea and the first country that is not one of the G7 that is chairing that great event. We are particularly appreciative of your being here and of your remarks, which will be addressed, I am sure, by Gordon with reference to the Steering Committee and Lionel on the question of political involvement. I have other people who would like to speak, including this gentleman, but no doubt others as well. I suggest we move onto a first round of answers as otherwise, we may get a bit lost, and ask the panel to address a number of questions that will help them explain their



thinking. We'll take another round of questions in a quarter of an hour or 20 minutes to address at the end of the meeting. I think we'll carry on in the same order, as I can't see any good reason to change. Lionel.

### **Lionel Zinsou, Chairmand and CEO, PAI Partners**

Thank you, Mr. Chairman. Thank you very much for the quality of the questions and the discussion with all our audience. To take things in the order I noted them down in, first of all I am very touched to have 90% support from Jacques. Coming from someone for whom I have enormous respect, 90% is a good result. Let's address this question of the blind spot. As you have raised the question, I think it's clear that there is a risk of a crisis in the Asian financial sector in the future. When someone says to me: "Now, it's curious, there are new bubbles forming and at the same time there's a problem over regulating overheating." Perhaps it isn't very helpful to say these are opposite problems. But in any event that is what is happening alongside another problem, which is trying to refinance a number of financial institutions and ensure better levels of liquidity.

We are having a few problems getting to grips with the risk affecting the Asian financial sector and in Hong Kong today, for example, you clearly have a level of tension in the atmosphere that we heard described in relation to Israel just now. It's clearly an emerging economy that's growing very strongly and which shares some common features with other emerging economies. What we're talking about is a quite exceptional capacity for competitiveness and innovation. Fundamentally, we understand the Israeli economic model and people are saying that the share bubble in Israel is starting to cause concern. It's true that we are going to see a real risk appearing, particularly in Asia. The only thing that really strikes me, then, and I'm speaking based on guidance from economists who have visited China recently, it seems to me that we are thinking rather a lot about the possible consequences of these bubbles in a number of economies.

Firstly, have you seen the legislation on restricting property loans in Mainland China? It's a bit more complicated in Hong Kong, in fact, where the property phenomenon is a bit more difficult to bring under the control of the financial authorities. But you have seen the restrictions on property loans. This is quite an effective way of deliberately cooling things down. You have seen the increase in the banks' statutory reserves and you'll be aware that a few days ago, earlier this week, the six leading banks were obliged to release 17.5% of their Tier 1 capital because of the fear of toxic assets on their balance sheets, primarily because of property or the risk associated with stock-market speculation. In some ways, we went much further than Basel III, but also much more quickly, as it took effect the following day.

Is there a risk of a financial crisis in Asia and, in general terms, in the countries where there is overheating? Yes. But we are lucky to have had previous experience of a number of crises. The crisis in the Baltic States is very interesting as well. So are the crises in countries that have suffered from financial overheating because they suffered a very significant impact from the lowering of interest rates associated either with their entry into the European Union or their entry into the euro zone. Suddenly they found they had created excessive internal demand and fundamentally they were unable to control it and suffered a really severe correction: the Baltic states have their own record recession. We have the Baltic experience. We have the experience of the Asian crisis in 1997. We have the experience of the Basel crisis.

### **Jacques Mistral, Head of Economic Studies, Ifri**

I don't want to interrupt you, but the whole of the Princeton book *This time is different* is packed with quotations about what you have just said, quotations from people who immediately after the economic crisis said: "We've learned from



what happened. We have taken preventive measures and it won't happen again." That's why I particularly appreciate the Chinese measures you have alluded to and the Chinese macroeconomy itself is generally well managed. I agree. But I'm not absolutely convinced. Even if it was quicker, what I wanted to say, is that it's perfectly in line with what the developed part of the world is looking for on financial regulations. Not the part about driving growth, which is different, but Basel III is clearly not something that was designed to stimulate growth as such. It's more about reducing the risks of volatility.

**Lionel Zinsou, Chairmand and CEO, PAI Partners**

I agree with you about the fact that what I am saying has often been said and often contradicted. I would just like to draw your attention to the fact that China was largely spared from the 1997 crisis. The predicted financial crisis over toxic assets in the Chinese banking system did not produce the systemic effect in 2008-2009 that we were warned about. India has very often proven its ability to attenuate the impact of financial crises and puts that down to its lack of liberalism and the closed nature of its financial services markets. Even so, a few economies have shown a degree of resilience, and India is one of them.

**Jacques Mistral, Head of Economic Studies, Ifri**

Even so, China suffered a devaluation of around 30% in 1997. You can't say that didn't have an effect and that's what enabled it to start rebuilding.

**Lionel Zinsou, Chairmand and CEO, PAI Partners**

I was talking about a financial crisis. The general view is that it managed to escape the financial crisis because of the fact that it has devalued.

**Jacques Mistral, Head of Economic Studies, Ifri**

People may think there are risks in China, that they are reasonably well under control, that we don't know the whole story and that Chinese banks adapt very quickly. But that at the same time that they are also developing the off balance-sheet techniques that caused such chaos in the US. At the moment the picture is not very clear. Nonetheless, it's not completely inconceivable that we could see a repeat of the situation. Let's move on to the next question.

**Lionel Zinsou, Chairmand and CEO, PAI Partners**

Just on the crisis in Israel, the suggestion about advising your electors on where to invest their assets, I saw that your neighbour was advising them to invest in private equity whilst you were speaking. It's not a very good idea and you seemed extremely uneasy about currency wars. Which seems to have been a common thread throughout this meeting. When I was young, I studied economic history, which I find very amusing. There has also been huge currency volatility. The fact that we have the euro has deprived us of a spectacle that would have been absolutely fascinating, i.e. the volatility of the drachma, the collapse of the peseta, the temporary sharp rise in the franc, the tragedy of the escudo. You can imagine that if the same crisis had occurred in 1999, it would have been frightening in terms of volatility, competitive devaluation and the impossibility of ensuring payments from one day to the next.



Whilst now, we just had to get our hands on a few forints and a few Icelandic kronur. Small beer, frankly, compared with the real currency war in the 1990s. As for the fact that the yuan was devalued by x%, let's just look at what happened to business. As the yuan has the tremendous advantage of being neither a billing currency nor a settlement currency, nor a pricing currency, nothing, in fact, as it is simply a non-convertible currency, people in business are obviously infinitely more struck by the fact that the dollar has just moved from 1.15 to 40 than that the yuan may have been undervalued by 40%. Because in that case, you are dealing with a currency that's used for entering into contracts, for pricing raw materials and for making payments. That's a real currency. In fact it's the extreme of a real currency.

25%, for the Israeli economy, is a lot more imp

ortant than whether the dollar has been undervalued at 1.40 or 1.50, or whether the dollar has been undervalued against the euro in relation to purchasing power parity, I'll leave it to the economists, in crude terms, somewhere in the band between 1.10 and 1.18. The real problem is that when there was a currency war, which was actually fairly frequent, when we still talked in francs, the dollar moved from 3.60 to 10.50. That's not a currency war, that's hyper-volatility, which we know about and which everyone knows how to adapt to. Earlier, we were talking about the Brazilian *real*. There's no war over the *real*. I was a management controller for a French company in Brazil when inflation was running at 2,000%. Every time I came back from a trip, the currency had changed its name. What we're in now is a period of calm. Trust me. Remember we had the cruzado, the cruzeiro, etc. until we got the *real*, which started to appreciate.

The idea of a *real* that was increasing in value would have been a political satirist's idea of a joke in São Paulo 15 years ago. I don't think the world is all that worrying, in fact it's more reassuring. There are no currency wars. There's just one, which does what it always does. I'm not going to get worked up about it. You have a whole host of asset classes. In Israel, you have an extraordinarily vibrant private equity sector. You have a venture capital sector for your incredibly efficient, innovative businesses. You have investments in real estate, which are still in very good shape in half the world. I don't know about the Israeli market particularly. You can always buy gold, which is the current fashionable safe haven. You have access to the full range of asset classes and frankly, there aren't asset bubbles everywhere in the world at the moment. Advise your electors to invest in French real estate: that's a healthy market.

You see, in reality, the world isn't doing so badly. Let me just finish by saying there's an R in BRIC. With growth of 4.8% and as a major economy in terms of producing raw materials, when the BRIC leaders meet in Moscow, which is a tremendous tribute to Goldman Sachs, they see that they are in effect a political entity and that they are meeting in Moscow. It makes sense. I heard the inventor of the term BRIC, Goldman's Chief Economist, Jim O'Neill, say this week, "Actually it's not BIC. I really did mean BRIC." What he means is that Russia is an extremely powerful emerging economy, with an economic model that is not necessarily the same as that of the other BRIC members, but is real nonetheless. Finally, my colleagues are undoubtedly better placed to address the minister's main question.

There is a question regarding a separate set of provisions to cope with a different governance for the emerging and developing world. No, I am sure that it is absolutely essential to have one forum, one set of rules, with segmentation, as you mentioned in Toronto. This pinpoints some different problems. They should come in one form. I do not believe that the real estate bubble burst in Hong Kong would leave us immune in Paris. I do not believe that an export crisis or a major currency crisis like the one in Asia in 1997 will leave us immune this time. It is so important that there is not a separate set of provisions, but that the document addresses the different contexts in the same form.

**Pier Carlo Padoan, Deputy Secretary-General and Chief economist of the OECD**



There are lots of interesting points of questions. Lionel has already taken up several of them, so thank you for that; it saves me from doing it. Regarding the point on exchange rates, I disagree a little bit. There are many things economists do not know; one is what drives exchange rates? There are very naive theories which say that in the short term, markets could work on a random basis, without any relationship to fundamentals. Therefore, God knows, it is something for the superstitious. In the long term, it is fundamentals.

Now, the interesting time dimension is the medium term, where you want to know what the relationship between the statisticians and the fundamentalists is. What is the role for policy? I do not have an answer for that, but I have an example of what is happening now. This may be a bit less optimistic about the phony war of currencies, as I call it. This is Germany.

Germany, as you know, has performed wonderfully well in the first half of this year. This is mostly related to the very large demand from emerging economies and given a weak euro, which is at around 1.2. Given all that, their economy was flexible enough to take the best advantage of it. This is thanks to reforms passed. Now, the euro is going back. To whatever figure it was at; it is moving in that direction.

This is one example; I may be totally wrong. Next year, we will see. What is largely volatility could generate irreversible 'damage' on growth in a major economy. The question is; what should policy do? That is the case in which I would not advocate for intervention, which I do not believe in. However, I would look at fundamentals and try to avoid that short term volatility that generates fundamental misalignments, as you call them. I will stop there.

On the question from Israel regarding where our citizens should put the money, you manage the money, so I am not going to tell you what to do. However, this gives me the opportunity to recall one of the many things which we have already forgotten about in this crisis. A very large number of American households were fooled into getting mortgages in the face of a property bubble, which they were told would go on forever. This is not economics; this is ethics that I am concerned about. There is a responsibility among regulators of the financial system.

This is just one example; I have several other examples, including the Argentinean crisis and the Italian banks convincing migrants to buy Argentinean bonds, because they were at a higher interest rate and the exchange rate was fixed, a few months before the collapse. There is a great responsibility, especially in this kind of world, where the citizen simply does not know. We have seen that the Lehman Brothers collapse was a consequence of the fact that the most sophisticated financial operators did not know what the structure of the products were. How can the citizens know about that? We have a responsibility there; that is my point.

The third point relates to what you were told about Russia, which I agree with. I would say that Russia is a problem. I am a bit more pessimistic, Lionel. It is a totally oil driven economy. What else is left? I am making this a bit extreme. What is Russia doing in terms of diversifying its export and production bases? It is not doing much. Let me finish.

The final point is; why should surplus countries put forward structural reforms that address the surplus? They will do it not because they are concerned about the surplus; they will do it for other reasons. The Chinese Government is looking seriously into pension reform, not because of the current account surplus, but because of the pension reform.



The Germans should look into liberalising their service sector, which contrary to the manufacturing sector is much more backward. They need to find new investment outlays; it is in their domestic interest. That is the point; it is not in the global interest. This is why they should do it.

**Gordon Smith, Distinguished Fellow, Centre for International Governance Innovation, Canada**

The idea of a global steering group is in transition, as the G20 is in the process of transition. These things evolve; I can go back to the period when I was Sherpa. By the way, my French colleague was not other than Jean David Levitte; he has been around for a while doing these things. We went through a process of over six years, I think it was, where Russia came to the first meeting for an hour and then finally, it became a G8. These things change over time. What I am suggesting is that it is a good idea to have some idea of where you might want to go, because if you have some idea of where you might want to go, you might want to go. The chances might be slightly increased that you can get there.

In my view, having seen the G8 function in the 1990s, what is going to happen is that the finance Ministers are going to want to take over their subject area again. This is on the presumption that we get out of the present financial crisis and there is not another double dip or something like that. They are going to give a push to the heads of Government to talk about something else. Indeed, I think a lot of people do not know about the period of the mid 1990s. The reality is that even when it was G7, before Russia became a full member, the leaders spent maybe 20% of their time talking about financial and economic issues. That was really all handled by the Finance Ministers and I venture to say we will go back to doing that again.

This is really a comment on our Israeli friends, on how people would ideally make policy choices. Pier Carlo is an expert in this area. My experience of sitting behind a group of leaders on three occasions, over a three year period, relates to what they like to do. This is not like a graduate seminar in which they weigh policy options, A, B and C and look at who benefits and who loses. What they really love to do is to cut deals. Although this may seem paradoxical, the best chance of getting a deal is quite frequently when you make the problem bigger rather than make it smaller. They can then figure out how, as a way of dealing with climate change and greenhouse gas emissions, transfer of technology and the financing. That gets linked to the development agenda and God only knows what else. They finally get a package where everybody wins. That is the way it works.

The final comment is to Ambassador Ahn. What he has done is to underline again how critical it is that there be a very effective process of outreach. This is not only to outreach the kind of thing that you have been doing, but the way in which you have approached the invitation to five other countries to come to Seoul. Clearly, it would be a disaster if the perception of the G20, even with all the outreach you have got, is that it imposes on others. That is a recipe for disaster. In my experience, which I cannot imagine has changed much in 10 years, is that the Sherpas are pretty sensitive to this. They are careful about how they work things.

**Jacques Mistral, Head of Economic Studies, Ifri**

Thank you very much. We have a quarter of an hour left. I have a question there, behind me. Please introduce yourself. Thank you, sir.



**Mohamed**

**Chafiki**

**Director of Studies and Financial Forecast for the Ministry of Economy and Finance, Kingdom of Morocco**

I am the Director of Research for Financial Forecasting at the Ministry of the Economy in Morocco. The discussion has already covered a lot of ground, and we have heard a lot of things to help us explore the range of problems we are faced with when we set the problem of governance against a major crisis with a significant impact on the development of the global economic system. That's why I also want to ask the question from the point of view of the country where you are today, namely Morocco. How can we look at the problems in a way that adds something to the complexity of the debate. I've heard many things, but I have been particularly struck by the distant origins of the current crisis, which are still part of the debate today. This morning, when we were talking about Kemal Dervis, I thought he was right to go back to this idea of a divorce between levels of productivity in the last 20 years, the problems of distribution that resulted from it and the incursion of the financial system to compensate to an extent for the differences and drifting we have known.

In terms of modelling, we have had the opportunity, with our forecasting colleagues in France in particular, to pose these problems in terms of rebalancing demand. Because the great question being asked today, is how can we find an alternative to demand from American households. In many of our discussions, we have been focusing on the catching up that could be done. We have been talking about emerging countries with a restructuring of economic policies, particularly in China, towards the internal market with the problems of social welfare. But we have not ignored what you said, sir, on the structural reforms in Europe and we have made reference to the German case in particular for the service and telecoms sector, in more detail. But beyond that, as well as that, we have been asking questions I would like to reflect on.

Today, over time, there will be rebalancing over the medium term too, because otherwise, we would understand everything we have heard today as a readaptation to the new growth map in the world where there are emerging countries, countries with deficits and increasingly limited room for manoeuvre. We need to redraw the map of the world in institutional terms from this point of view. So the question I want to put to you is a question about the countries for which there is no current established doctrine from the point of view of global governance, i.e. countries with intermediate earnings. If you look at the efforts made over the last ten years and particularly in Africa, today, continuous growth is causing problems in current accounts in relation to savings issues and motivation.

Contrary to what I have heard, my country has been growing since 2004 at around 5 or 6%, year in, year out, with other problems and with a level of investment of the order of 34%. We have gone beyond our ability to save. That's the problem we face. The efforts made in these countries risk being called into question if we take into account what I would very clearly call today's currency war. It's something we really need to think about. Let me finish simply by saying that the problems of global governance presuppose, if we go along with what the Secretary General of the United Nations has said, that it should not be the poorest who pay the price. We need to introduce a cooperative aspect into our reflections on governance. Thank you.

**Jacques Mistral, Head of Economic Studies, Ifri**

The gentleman behind me.

**Samir Aita, President of the Cercle des économistes arabes**

I am editor-in-chief for the Arabic edition of *Le Monde diplomatique* and Chairman of the *Cercle des économistes*. If we are talking about governance, I have two key questions. But to explain them and to go back to Kemal Dervis, when he talked about how to introduce a degree of governance, he gave the example of the WTO. He said, "The WTO may be a good example because it imposes rules and pretty much the whole world imposes the same rules on itself." What exactly does the WTO do? It imposes rules within countries. You can't dump etc. on governments and international trade rules on foreign exchange. If you take the same problem and apply it to finance, you can ask the question initially within each country: are the situations parallel or equivalent in all countries?

I mean between the banks, a country's banking system, a country's central bank and the government. A country like Japan can support a deficit of 200% of GDP because debt is supported by local banks, not by international banks. Lebanon can have 250% of GDP, because as they say in Lebanon, "I've got you, you've got me by the beard." The system can take it. The system is not the only reason why it can survive, but countries can present very different situations from the point of view of the relationship between banks, central banks and governments, which are not and never will be equivalent. I want to give you another example, as although we've talked a lot about risks in Asia, there is a risk in Europe too : it's that one of the major problems of governance is that the central bank is European and is supposed to be independent,

even from the European Commission. It can diverge and be different from government policies. It means that even if Germany and France agree to lead Europe on a particular policy, we can imagine that Mr. Trichet might refuse to implement it. He would be perfectly within his rights. It's difficult to do in China because in China the coordination between the central government, the banking system and the Chinese central bank is much tighter and to an extent you will never be able to get away from that. What are the consequences? I have always asked myself that question and I would really like an answer, if someone has an answer for me. If the Greek socialist Prime Minister had arrived in government following a series of right-wing governments that produced a monstrous mess in Greece, would he have acted in the same way as the Prince of Dubai?

What I mean is, just an introductory declaration to the problem like the one issued by the German, US and French banks. They are the ones who took on the debt. If he had said, "I want to restructure the debt," what would have happened? My feeling is that Greece would have been in a far better situation than it is today. Which is quite legitimate from the point of view of government concerns or social policy in a country. Very quickly, there's another aspect, I spoke just now about the example of the WTO applied in a country when different countries are in different situations. People never talk about the history of exchanges of capital and we didn't talk about it this morning or at any time today. During the crisis, even President Sarkozy started talking about taxing movements of capital. It was something that was in fashion at the time. Today, it's fallen off the agenda completely. The only thing people don't talk about and which is not regulated in any way in terms of the history of financial taxation is that money that is in surplus supply in some countries is looking for bubbles to invest in somewhere else. Today, the whole question of limiting taxation or regulating exchanges of capital transfers has been forgotten.

**Jacques Mistral, Head of Economic Studies, Ifri**

Not completely. It's still there. It's part of the discussion around the future role of the International Monetary Fund, for example. It may be a source of regret that things aren't moving quickly enough. That's true. But it's part of a whole package of discussions about the reform of the IMF. You know that there is a great deal of literature developing around this question, which is not lagging behind more than any other subject. It's true that in tangible terms, at the moment capital flows are developing with somewhat devastating consequences that have been discussed on several occasions

in relation to Turkey and others. Do we have one final question? There's someone with a hand up at the back. Briefly, please, madam, as we're running out of time.

**Rahma Rachdi**

Journalist at the European News Agency. I'd like to go back to what Mr. Padoan said about the responsibility to inform the citizen, particularly in relation to the US citizens who were victims of the subprime issue. There is certainly a moral responsibility to provide information in the interests of fairness. How do you envisage applying this responsibility through global governance outside media outlets that still tend to be specialised? Thank you.

**Jacques Mistral, Head of Economic Studies, Ifri**

A few words to conclude from our panellists. Pier Carlo Padoan.

**Pier Carlo Padoan, Deputy Secretary-General and Chief economist of the OECD**

I would like to do some advertising for the OECD. We have a programme on financial education, which has been going on for a long, long time. Its purpose of suggesting to Governments, because it is up to them, that they should introduce financial education early on in education. When they monitor financial industries, which intermediate with households, they should be extremely careful in being very transparent about what these people are receiving. The asymmetry of information there is simply huge.

**Jacques Mistral, Head of Economic Studies, Ifri**

Lionel, a few final words?

**Lionel Zinsou, Chairman and CEO, PAI Partners**

On a few of the questions. Why did I talk about Russia just now? Just to say that we need to bear in mind that there is some flexibility in the real economy. You will recall that the Soviet Union controlled prices on the agricultural markets as it was the largest importer and because, fundamentally, it had probably the most inefficient agricultural economy of all the major powers. You saw that this year, it adjusted prices as it lost the ability to export grain because of the drought and the fires, and people discovered it had become the largest cereals exporter in the world. Fundamentally, there had been a spectacular change in the production system and a different impact on the world economy in 15 years. Sometimes there is flexibility, even in economies dominated by hydrocarbons, right across the productive system.

Just to answer very briefly, I think there are things to talk about in relation to intermediate countries. That's why I don't think it was unreasonable to say that they too need to be invited to take part in global governance. We also need conferences like Marrakech to remind people that it isn't all that simple not to be a country that receives aid, because at the end of the day, Morocco gets seven times more help from the return on savings from Moroccan residents abroad than public development aid. At the end of the day, public development aid is no longer significant in funding growth in Morocco. We are not, at the same time, one of the countries that receives massive amounts of direct investment,



hence the importance of the return on citizens' savings. They are very specific economies posting very high levels of growth under particular constraints with particular current account problems.

It's true we need to come up with something new. That's why I emphasised the fact that the African central banks have accumulated sizeable reserves. There are possibilities for mutualisation in Africa. There are certainly more innovative ways we could find of financing these kinds of economy. Morocco is part of the Next Eleven or Next Fifteen in terms of emerging economies. It's a problem that in objective terms is not a central concern. We have the impression for the moment that global governance is rather the OECD being on the defensive and the BRIC, and the confrontation between the two. What I am saying, is that there are also some interesting problems in the so-called Next Generation. As far as the remarks on identifying a system of penalties go, someone said earlier, "There is a dispute resolution system within the World Trade Organization." Perhaps we should have a prison, sanctions, fines, etc.

The market operates at the macro level as well. Where there are major imbalances, the market may not necessarily correct them, but in any event it will point them out, amplify them and ring the alarm bell. If Greece has to refinance itself on the markets, it will do so by paying a premium that would, in fact, make refinancing completely impossible. There are market mechanisms that provide some degree of regulation. I think it is an exaggeration to say there is a European risk. Frankly, it is not even the area that is most at risk. However much respect one may have for Greece, it's an enormously important country in cultural and economic terms, but Greece still only represents about one month of German production and about ten days of French and German production combined. There must be a way of absorbing the Greek problem through solidarity mechanisms. I heard a senior French politician say yesterday, "There is actually a real G2. We need France and Germany to be very, very closely involved in these issues of global governance, because between them they represent 53% of European GDP." However much respect one may have for the risk run by countries with the same population as the 15<sup>th</sup> *arrondissement* in Paris, to take an example, it can sway the markets. But fundamentally, it's of no importance. These are not systemic risks.

**Jacques Mistral, Head of Economic Studies, Ifri**

Thank you, Lionel, for your assessment. I would like to congratulate all of you. This session has now come to an end. We had until 17:30 and it's now 17:32. I would like to thank you for the enthusiasm you have shown discussing some rather stark questions and for spending a Saturday afternoon on a glorious day in Marrakech in a dark room. Well done, everyone, and now please join me in thanking our three panellists.