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Good morning. I have to report on the workshop which extended the morning plenary session and dealt with monetary and financial governance. Of course, the organisers of this conference were wise enough to combine two workshops on subjects relating to the extraordinarily high demand for financing, with a workshop which dealt with how to be sure of obtaining the required financing. One of the problems is that agriculture is unfortunately the most capital intensive economic activity (i.e. with the highest capital-output ratio), nearly on a par with energy and water supply. This may be pleasing to financiers, but we still need a system of world governance that ensures that basic needs are financed. We were under the enlightened chairmanship of Jacques Mistral and luckily with a very enthusiastic audience. So, in addition to brilliant speakers, such as Mr. Padoan, Chief Economist of the OECD, and Ambassador Gordon Smith, the audience fed us a nourishing diet of questions.

We started with the idea that the plenary session had said everything with considerable authority. We agreed that the world had basically succeeded in getting the financial system working again. We had, of course, President Trichet saying there was still a lot of hard work to be done. But, after all, the work was well under way. We understood that, as far as the regulation of banks and insurance companies was concerned, much work had been done, but there were still the non-banking institutions. Therefore, Mr. Founding Chairman, you took the precaution of inviting neither banks nor non-banking institutions, which explains why you have the highest proportion of central bankers ever assembled for any conference on governance and the lowest proportion of primary bankers. We did not have any financiers in the room and there are very few of them present here. Professor, you said: "I stand to be corrected by the financiers in the room", but there were none. Now, this is important.

Perhaps next time we should ask bankers for their opinion. But maybe you thought that they had still not atoned for having caused a serious crisis. Anyway, we were convinced that the banks and non-banking institutions still remained. I think I was the only one representing the non-banking institutions. Non-banking institutions, financial intermediaries and highly leveraged non-banking institutions are what I think President Trichet was talking about when referring to hedge funds and private equity firms. I came to understand that there was still a lot of progress to be made on governance in this area. That was one thing that we agreed on. Something very important that we heard in the morning and which came up with obsessive regularity was that Asia still had needs — and Mr. Kuroda was emphatic about this — in terms of nutrition, poverty reduction, which were still extremely demanding and urgent.

Consequently, nothing in the governance of the world financial system must have the effect of slowing growth. This came up again when one of the participants in our round table pointed out that decoupling had arrived in the room when Kemal Dervis said: "I come from Istanbul where our problem is a terrible overheating with very excessive short-term inflows of capital which cause inflation and overheating problems". We have just seen two quarters with GDP growth of more than 10%. So we come back to the previous point. A single system of financial governance is needed. However, ladies and gentlemen, there is one world in which financial governance can basically re-inject liquidity, get markets working again, try to ensure that basically there is no depletion in the volume of the means of financing substantial needs. And then there is another world where the need is to regulate overheating and prevent property bubbles, such as in China, and bubbles in all assets (such as companies, as in India, etc.) which, as we have seen, were beginning to show up in commodities markets in the summer. In this world, the need is to ensure that such

bubbles do not become a major factor of instability. So we need governance for two worlds which takes into account quite a strong decoupling of one from the other.

In reply, Ambassador Ahn asked us: "What consequences do you draw from this? Is it that different forums are needed: one to deal with countries which make up nearly half the world in GDP and two thirds of the world in population where it is a matter of providing financial governance to regulate overheating; and another forum for the other half of the world where it is a matter of trying to secure the recovery?" I believe the unanimous response was: "Of course not, we need a single forum. We have an unprecedented degree of interdependency. A single forum is obvious, but it is necessary to take account of this fundamental difference by using a typology of the means of regulation which take this differentiation into account". Kemal Dervis said: "We have never experienced this degree of differentiation. We have never had this degree of disparity between the two parts of the world". Something that was also very interesting regarding the morning session was a theme very characteristic of the OECD and very well defended of structural policies. That is to say, the risk in periods of crisis is having a regulatory effort entirely focused on the short-term cyclical situation.

President Trichet spoke to us of overnight loans by the Central Bank to provide liquidity for the largest commercial banks. Structural policies are justified by the argument that we have large imbalances between savings and investment. Obviously, if we had stronger domestic demand or social security systems and social safety nets in the emerging markets where savings rates stand at between 20 and 40% of national income, if we had such mechanisms for enhancing the solvency of domestic demand, then we would have fewer saving, fewer surpluses and fewer imbalances. This obviously amounts to kind of structural policy, which takes time to implement, but is absolutely essential as finance is too serious a matter to be left to financiers working purely on the technical aspects of finance. There must be a balance between savings and investment. The same goes for the functioning of financial markets and their improvement.

It is evident that companies in emerging countries keep too much of their savings in cash as they cannot finance themselves in the normal way on the financial markets. In the long term, it is structural policies which provide opportunities for controlled development. Ambassador Gordon Smith rightly stressed the role of Steering Committee of the world economy to be played by the G20 in a very interesting debate with Ambassador Ahn, because this is one of the questions for Seoul. That is: how is the world economy to be steered? Where is the cockpit? Who is the pilot? Then an interesting question was raised: two or three years ago we had institutions inherited from 1945 and marginally improved, whereas today we have witnessed the creation of a considerable number of institutions just to regulate finance. But it is not certain that we have the right institutional architecture for this governance. We have to deal with an enormous number of new institutions.

The creativeness of the world in solving this crisis has been exceptional on an institutional level. It is not absolutely certain, as was pointed out at the morning session, that we know quite what the roles are of the old remodelled or reinvented institutions of the Bretton Woods system in relation to the G8, the G20, the various professional committees or informal committees. The same debate, you remember, arose on the following question: are the emerging countries making themselves heard in Basel? The Japanese and Asian authorities say "No". The President of the Basel Committee says "Yes". Are we 20 or 27 around the table? The issue had cropped up in the morning. It obviously came back. The system has no architecture. There is now maybe a kind of institutional excess or surplus. This is, of course, one of the major issues of the French presidency of the G20, which is inevitably going to be very Cartesian, and will coincide wonderfully with the G8 in the hands of the only rational great power, is it not, and also the one that invented the G20.

Mr. Chairman, I am three minutes late. I would just say that we ended with a debate which could still be quite topical next year on the currency war and on the following theme: surely we are going to find means of flexibility which are not means of instability. As it was necessary for the corporate sector's views to be expressed, I suggested that the problem of the yuan was a huge problem, but that the under-valuation of the dollar in terms of its purchasing power parity with the euro was something rather difficult for the day-to-day managing of companies. In other words, there is not only one currency which poses problems of artificial under-valuation. We ended our discussions with this idea. Surely we are going to be able to find the flexibility to protect us from instability. This might be a rhetorical pirouette, but it is an excellent programme for next year. Thank you.

