

## World Economic Forum Annual Meeting 2010

### The New Growth Narrative

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#### Transcript

**Lionel Barber**, Editor, Financial Times, United Kingdom:

I'm the Editor of the *Financial Times* and it's my great pleasure to open this session on The New Growth Narrative. I'm not going to offer you a long introduction other than to say that many people believe that there is a power shift underway, an economic power shift underway, with growth really booming in the emerging market economies and a power shift from West to East.

Now, we have an extremely distinguished panel in front of me. There are at least three elephants in the room that are not in the room – China, India and Brazil – but if we look along this panel – from President Kaczynski of Poland, Aleksey Kudrin, the Deputy Prime Minister of Russia, Shimon Peres, the President of Israel, Danilo Türk, President of Slovenia, and Alvaro Uribe Velez from Colombia, and former President Zedillo of Mexico – I think we have a real body of expertise with their own unique insights.

So I'm going to open the session by asking former President Zedillo the question that's on everybody's lips this week in Davos about growth in the emerging markets. Is it real and is it sustainable? You have two minutes.

**Ernesto Zedillo Ponce de Leon**, Director, Yale Center for the Study of Globalization, Yale University, USA; Member of the Foundation Board of the World Economic Forum:

Well, okay it's real in the sheer numbers, but it's real mainly because of the elephants that are not in the room. It would be a mistake to believe that every emerging or developing country is having a good growth performance. And it would also be wrong to believe that even the absent elephants will keep growing if the global economy as a whole doesn't overcome fully the crisis, and also works hard to restore balance, economic growth. It would be an illusion for our Chinese friends or our Indian friends to believe that they can sustain the very high growth that they have had in the recent past if things are not fixed in the rich countries, and also in other developing countries.

So I would say there is a big question mark, and whether we really have sustained growth in the near future and in the medium term will depend on two conditions: one that everybody works very hard to clean up the domestic mess in which we are now, in practically every country; and second, that we are more active, imaginative and we have better political leadership to manage interdependence. I think globalization has been great for economic growth and for development, but I think we need to give a hand to globalization, because otherwise it will allow these economic problems to become geo-political problems; it will infect the global market economy and that is going to backfire not only against rich countries but also against those emerging countries that have been doing well.

**Barber**: Thank you. President Uribe, is it real, the growth in Colombia? Is it just due to a boost in commodity prices?

**Alvaro Uribe Velez**, President of Colombia:

[Spanish]

**Barber**: Thank you, President Uribe. I'm sorry that the interpretation wasn't there, because we thought that you were going to speak in English. Would you just like to rewind the tape? There was Russian, but I don't know why that was. Do you want to say that in English, just very briefly?

**Uribe Velez:** Economic growth in Colombia is real because the country has a very important rate of investment. That year we had the biggest rate of investment in the Latin American region. The country last year had 9.5 billion in foreign direct investment. Our financial sector has performed very well in the crisis. We regulated it before the crisis, but we did not strangulate. We were in equilibrium. We are working to transform our traditional economy and to develop in Colombia new sectors of world standard. And, of course, we have had fiscal expansion, but with prudence to avoid a new, any, crisis of indebtedness in the future.

**Barber:** Thank you, Mr President. Now, a view from Slovenia, which is rather interesting, because Slovenia was a great beneficiary of foreign and direct investment as you were preparing for Euro membership. My question to you is: is the growth story sustainable or have you caught the European disease?

**Danilo Türk,** President of Slovenia:

Well, I would like to say that we are very much European.

**Barber:** The West European disease.

**Türk:** That includes probably all the good sides and less good sides about being European. Slovenia is a member of the Euro zone for two years and that, I think, gives you a part of the answer. The Euro zone was quite effective in the initial period of the crisis; I think the European Central Bank did very well with its credit support and also with its regulatory function. But then subsequently, I think the entire Euro zone has suffered a problem, because growth really is not sufficiently high. I think that that is a phenomenon which is likely to stay with us for a while.

Slovenia is a small export-orientated economy. We are exporting about 70% of our GDP, and therefore we were quite adversely affected by the global recession. At present we are focusing on short-term tasks, which include also looking for new markets. Much of my travel recently has been devoted to markets outside European Union, because we have to expect relatively low rates of growth in the European Union, which is our traditional export market, and that is likely to be our orientation for the future.

Secondly, we do hope that the financial system of Euro will evolve. Now that, I know, is something that has to be approached rather cautiously, because countries which are not in the centre of Euro zone and which are export-dependent, they will have to I think be assisted in the future. It is all fine and good to believe that fiscal discipline and improvement in fiscal balance is a necessary task. We understand that and we are working for that. But over the longer run, I think we would need to figure out how to improve our competitive capacity, but there are limits – I mean, we cannot export without any limitations – and whether countries which have higher surpluses are going to help those which cannot have as high surpluses. Now that of course is a strategic question which does not have an answer at present, but this has to be discussed.

**Barber:** Thank you. President Peres, perhaps a perspective from Israel, where we often hear lots about the political difficulties in the region, but actually there's a great growth narrative in Israel.

**Shimon Peres,** President of Israel:

Well I think that you have to distinguish between economic growth and poverty. You cannot have economic growth without going global, and poverty is national. They are two different situations. About globality, I think we must understand globality is not just becoming global, but also becoming individual. Namely, individual people today contribute to the economic growth to an unprecedented extent. Two young boys can create a Google which is a large organization, almost like a state. It didn't kill anybody; it didn't exploit anybody. By innovating, by initiative, you can do it. So if you want to become global, pay attention to the individuals and to small islands. It's not a continent.

The other thing is, in that way we depart from the traditional economy, is economy is a matter of mood as well. The thing that the economies didn't bring into account is how to mobilize the trust and the hope of the people, which is an economic factor. Israel is enjoying in modern time two things: one is a great deal of individual people who are really innovative-orientated and believe in our innovations. We don't have land, we don't have water, so the only thing we can do – we don't have natural resources – so we really live on that. The other thing that enables us to become global: we are too small to become a market and too small to be a great industrialist. So globally we want to become a laboratory, to live on new inventions.

Then the other side: you cannot have growth without facing poverty. In the Middle East, the population has grown three times in 30 years. There wasn't enough water three times, neither the land, and it's easier to

produce children than to prepare food and drops for them, and the less we shall turn our attention to it, the growth will be eaten up by the poverty. So you have to fly on those two wings simultaneously.

**Barber:** Thank you, Mr President. Vice-Premier Kudrin for a Russian perspective.

**Aleksey Kudrin,** Deputy Prime Minister and Minister of Finance of the Russian Federation:

Russia is an emerging market. That's how it's classified. And we have many typical features of emerging markets, of developing markets, mainly because they depend so much on developed markets – export, import, capital flows – so if developed markets in the US and in Europe will ensure sustainable growth, then probably, most likely, we shall also feel secure and have sustainable growth.

At the same time, we must understand that this global crisis is unprecedented and the measures that all the countries have undertaken in terms of financial stimuli are again unprecedented, so it's difficult today to forecast how long we'll be able to continue with these huge injections. It's also difficult to predict the echo, the impact, they'll have on our balance of payments, on our sovereign debt, which will go up 200% for many developed countries even, and that will change the situation in capital markets severely. Government is now competing with the private sector. Private demand hasn't quite recovered yet, so we are very keen for each and every step to be undertaken with great care. Every step, every measure, large liquidity volumes, large financial injections, have all got to be undertaken very prudentially. It's very difficult now still to talk about stability.

We look at the American economy; we look at the European economy. Yes, stockpiles of products are growing, but it's difficult to talk about sustainable growth, apart from that Russia has its own particular features. We depend on crude oil sales, and so we're very directly linked with energy consumption, particularly of traditional hydrocarbon-based resources. And here we've lost much more growth than others, because the price in one year fell by a factor of three for these hydrocarbon resources. At the same time, we have certain buffer, certain cushion, in Russia, so we're focused on growth in Russia, but very insignificant growth so far.

**Barber:** President Kaczynski, offer a Polish perspective.

**Lech Kaczynski,** President of Poland:

Is Poland an emerging market? Yes and no. Why? We are a member of the European Union and, from that point of view, we are not an emerging market. From the point of view of GDP, if you compare us to China or India, we do have a much higher GDP, but the growth dynamics of Poland in the last 20 years reflected the growth in the countries that completed transformation processes. From 1989, GDP grew about twice in Poland, so that doesn't quite match up with the Chinese or Indian dynamics.

Poland does have similar problems to EU member states as well. There we are the only country that will have maybe even 1.7% of GDP growth this year. So far the estimates quoted 1.1% of economic growth. We are facing a significant slowdown because, in 2008, we had 6.8% and that was one of the best years after 1989 in Poland. Also the flow of direct investment has shrank. Internal demand has shrank minimally, although retail sales have grown by more than 7% already. Investment is at the level of the statistical mistake, at the same level as last year, but please remember that, in 2007, we had 17% of growth in that category, so there is a slowdown. There is no reduction in growth. That is the difference between us and many western European economies.

We have got 40% dependence on export, but the shock in the banking system in the 1990s caused some turnaround processes to be completed in Poland. In Poland now, we have about 6% of bad loans, but that is a minimum rate if we compare it with the times when I was responsible for auditing in country and we had more than 30% of GDP of bad loans. Of course, the nature of the financial sector has changed in the meantime. We are facing a situation in which, from the perspective of the European member states we can think it's a good situation but, if we look at the situation from the 2007 perspective, we must say there are some troubles, especially in the financial sector. There is some risk related to indebtedness that has already been mentioned today, although in the EU we are number 13, so we are more or less on an average level. Perhaps in 2010 we will be number 14, but the dynamics of growth of indebtedness, even in the eyes of a politician who's not really liberal like myself, is still too high. So Poland is facing some problems relating to managing public financing sector and renewing the growth dynamics that we enjoyed in the years 2005, 2007 and also 2003 and 2004. We had a break in that trend in 2005. We have a population of almost 40 million, so we are quite large but, if you compare us to Brazil, not to mention China or India, we are quite an insignificant size of economy.

**Barber:** Thank you, Mr President. Now I'm very conscious of not falling into the trap that President Peres referred to, which is generalizing, because each country has its own economic and political characteristics. However, one of the striking features of the aftermath of this crisis is that a group of countries often labelled as 'emerging markets' have been more robust – if you look at Brazil, if you look at China. And some have said that is because, say in China, they are pursuing a model which might be called 'illiberal capitalism'. So I'd like to ask President Zedillo, because he's out of office, whether illiberal capitalism has some real virtues and is the coming phenomenon.

**Zedillo:** Well I think we have to be careful about the use of words. I would say the market economy has proven historically to be an extremely powerful instrument, I would say not only for prosperity but also for international peace. However, we have always known that the state is very important. Actually, you cannot have a good market economy if you don't have a good, strong, functioning state. So I dislike when people pose these as a predicament between market and state and, unfortunately, lately because of the crisis and some of the short-term policy responses, we are going back to this rather silly discussion about whether we should have less market and more state or we should have more state, you know, and all that story. I think we need the market economy, speaking about countries like Mexico, if we really want to overcome poverty and become fully developed, but the truth is that we are not going to have that prosperity if we don't have strong states that, number one, provide for the rule of law; that number two, equalize opportunities among citizens to be part, an active part, of the market economy. So I don't know whether this is liberal market economy or this is modern socialism. I don't really care. I think we need a strong market economy. We need a strong global market economy, and we need functioning states domestically, but also with greater international coordination and cooperation.

**Barber:** Thank you. Such a pity President Sarkozy is not here on this panel tonight, but there we go. President Uribe, what's your perspective on this question of illiberal capitalism versus a market economy? I know it's a false dichotomy, but have a go.

**Uribe Velez:** We need to promote investment. Without investment, it is impossible to create high-quality jobs, to improve prosperity, to overcome poverty. Private investment is a necessary pillar to create social cohesion. We need market access. We cannot dismantle the state and we cannot create obstacles to private initiative, but it is very important to be aware that private initiative needs to behave with social responsibility. What is social responsibility? Social responsibility is transparency in the relationships between investors and the government. Without transparency – the absence of transparency – is the path to dictators. Social responsibility is a strong commitment of private investors with community sensitivities, such as the environment, fraternity in the labour relations, fraternity opposed, against wild capitalism and against social class hatred.

**Barber:** Thank you. I'm going to ask one more panel member this question then we're going to come to demographics, but perhaps, Minister Kudrin, would you like to address this question?

**Kudrin:** On demographics?

**Barber:** No, not the demographics, on the question of the role of the strong state. Illiberal capitalism, is there such a thing? Is it superior, a superior model?

**Kudrin:** How do we measure liberalism? How liberal is 'liberal'? I think today what we come across is the risks of world market, the global market, have become dangerous for many countries and, if countries were to begin creating their own national barriers to protect themselves from these risks, then capital flows will be distorted; inflow of investment will dwindle. So I think that we need to create global regulation institutions to create transparency to protect investors' money in these markets, and then capital flows in the entire blood distribution system, if we can call the financial system a vascular system in a human being, then additional capital flows will happen and then all these intersections will go smoothly and then we'll have more liberalism.

**Barber:** The *deus ex machina* has just told me that it's time to move out to the rest of the audience, but perhaps you could just direct your question to a couple of the gentlemen who've not spoken yet. Anybody in the audience who'd like to ask a question? If not, I'm happy to carry on. Not yet. There's a gentleman there in the aisle.

**Ronald M. Freeman,** Adviser to the Chairman, Troika Dialog Group, Russian Federation:

Ron Freeman, Troika Dialog, Moscow. One of the most interesting examples of economic vibrancy in these difficult times has been provided by Israel. Perhaps President Peres might say a few words about Israel's unique approach to producing positive economic growth during a time of difficult economic conditions in the world.

**Peres:** I wouldn't learn much from India or China, because each of them is a continent in their own right and a culture in their own right. To understand the Chinese economy you have to be Chinese, either individually or collectively. You cannot copy. When it comes to us, what happened is there's a non-governmental sector. I wouldn't call it capitalism and liberalism, but individual initiative, groups of persons are playing an extremely great role. The government has a problem. I think first of all about the social responsibility of the government, I would say there are two things that the government has to do socially. One is to distribute fresh air equally among the people, and the second is to educate the youngsters with an equal chance. That should be done by the government. Otherwise, the government has problems, because governments have budgets; they don't have money.

The non-governmental sector has money. They are not limited by budgets. It's not just a matter of budgets and money. When a minister of a government has to take a risk, he's terribly concerned because if in failure he will be cruelly attacked and he must keep his public relations. In the non-governmental sector, if you don't take a risk, you don't stand a chance. Today, risk-taking is the most careful thing in life, because it's not what you have accumulated that counts, but what you are going to penetrate will bring you wealth. The economy is not past-orientated but future-orientated, and all our concepts are old-fashioned. In Israel, I think the government understand more or less what are the limits, not where to regulate but also where to stop regulations and enable people to fly, both if you're an inventor or investor. And by the way, it's easier for the non-governmental sector to be global.

Governments by definition are national. It's very hard for a government to become global. I don't believe in all these ideologies, because globality is not a new ideology; globality is a new situation, where the former ideologies don't fit in; they are over. The great difference is in the past we used to live on the land; now we live on science. Land has borders, calls for war, calls for corporate competition. Science does not have borders, calls for cooperation and calls for initiative. Israel is a good example because we have nothing in nature, neither in size nor in wealth, and our great advantage is not the number of square kilometres we have but the number of scientists we have per square kilometre. So if you don't have enough land, produce more scientists and more educated people.

**Barber:** President Kaczynski, perhaps you could tell us how many Polish scientists per square metre.

**Kaczynski:** Well, in Poland at the moment we have a growth in the number of students. For 20 years, they have increased fivefold. Now in Poland more than 50% of youth is studying in universities. It used to be a little bit more than 10% and it used to be purposeful policy of the then governments but, if we look at the scientists, scientific staff, and here I'm looking both at the tertiary institutions' staff and the staff of R&D institutes, they have grown almost twofold, because it would be impossible to have even more of them, more of an increase.

We have about 160,000 or 170,000 people in that category right now. Is it a lot? In the current context it's not really a lot, but one must state that the scientific output is not something that happens overnight. The Polish system is perhaps overly formalized. We are now thinking about simplifying it. In Poland, you gain scientific degrees and titles. The highest degree is awarded by the President and this is quite untypical; I don't think there are many other countries in the world where you have that, but we've got successful scientists in IT, in mathematics, physics – not really talking about humanities or social scientists. Poland has got success in those domains. We do intensify our cooperation with Israel in that respect. But knowledge-based economy, an Israeli type of lab, is the future; it's definitely the future. But in Poland, we will not have exactly that kind of future, because Poland has got 40 million inhabitants and not 7 million, like Israel. We also have a surface that allows us to have quite extensive agriculture. Israel doesn't have that opportunity. We've got quite a lot of natural resources, especially coal and copper.

**Barber:** Thank you. The next question from the audience, if there is one, down this side. Is that right? Do I see anyone? I can't see anyone at the moment. There's another one on the right. What's happened to the left? Okay, one more from the right, then I'm going to ask the President of Slovenia a question. Go on.

**Sandeep Parekh**, Visiting Associate Faculty, Indian Institute of Management, Ahmedabad, India:

Sandeep Parekh from the Indian Institute of Management and YGL. Taking us away a little bit from trade into currency movements, I think we are already seeing bubbles in several emerging economies. I think the

countries represented on this dais may not represent those currencies, but is a Tobin tax on currency inflows a possible tool which any member of this panel would consider, if they look at a large quantity of hot money entering their country.

**Barber:** Right, President Zedillo, you can give a quick answer to that one.

**Zedillo:** Maybe you ask me because I am a student of James Tobin and, with that authority, I would say that having a Tobin tax is not really a great idea, to say the least. I don't think a Tobin tax will prevent or will fix the kind of problems that we have seen lately. I think the problems are much more complex than that and what we need are really regulatory systems that prevent the kind of excessive risk-taking behaviour that we saw in financial institutions in recent years. And more fundamentally, we need sound domestic macro-economic policies, at least in the main players of the global economy, and we need an unprecedented degree of international coordination for those macro-economic policies. I think speaking about a silver bullet like a Tobin tax is totally misleading. It would be a terrible mistake to apply political capital to get that Tobin tax agreed internationally, which I think is practically impossible, and don't pay attention to the other problems that are at the root of this crisis.

**Barber:** Thank you. Is there any member of the panel who's going to be brave enough to stand up and say they're in favour of a Tobin tax? I think you've got your answer there. I want to just turn to Minister Kudrin because, even though Russia experienced serious capital outflow during the financial crisis, you did not impose restrictions on foreign exchange and kept the economy open. Why did you make that calculation, minister?

**Kudrin:** Russia, for a long time in the past, had restrictions on capital movements. We restricted convertibility of our currency, of the rouble, and we know how it happens. We have the example of the 1997-98 crisis, and it showed that any currency restrictions during crisis are not efficient. Black market for currency exchange becomes stronger, starts to flourish, and currency outflow continues so, this time, we decided to go for more responsible macro-economic policy. We want to decline our dependency on crude oil and this will insulate us slightly from currency risks. But, nevertheless, I think during this global crisis we did feel the need to regulate global reserve currencies amongst others, and the example of a large amount of liquidity in the world markets – we don't even know what consequences it will have. I think that we might have to create new regulatory institutions to regulate currency systems. I always quote the example of the EU and Euro. The ECB acted more prudently, more cautiously and depended less on national governments and their policies, and we saw, we witnessed, a lot of positivity here during the crisis. The requirements to fiscal policy of the Euro zone countries are very important, and I think we should copy that practice; use it.

**Barber:** President, perhaps you could just tell the audience how pleased you were that most of the responsible economic decisions were actually taken out of your hands and handled in Frankfurt.

**Türk:** Well I'm not entirely sure that your definition is correct or that your diagnosis is correct, because one of the feelings that has emerged during the 2009 is that, in fact, there has been a degree of disappointment with European Union institutions, because there has been more and more reliance on national policies and national solutions. Obviously, European Union is not a single sovereign state, and we have to know that. European Union doesn't have single policies in most areas; it has common policies, which means that there is coordination, which takes care of the Union as a whole but, within that, there is a lot of space and a lot of responsibility for national governments, and those responsibilities are different, depending on countries.

Let me give you two quick examples where I think that coordination will be vital for the future. One is ageing. I think the ageing population of European Union countries calls for coordination when it comes to social policies, policies of retirement and policies of this nature. Now this may not be equally dramatic in every country at this time, but it will be something of a longer-term problem for the entire Union and coordination will be necessary. And the other thing is research and development. There was a discussion within this panel about the needs and, of course, about the growing importance on the reliance of what we call knowledge-based society or knowledge-based development. Now, obviously for the European Union this will be a challenge. I'll just quickly finish and say there is this proposal to create a single intellectual space within European Union, which calls for better flows of researchers and cooperation in that area. Now, the common problem of the Union is that there are too few researchers if you take the Union as a whole, and Union will have to do something to get more investment into that sphere. That of course will call for coordination again.

**Barber:** Yes, and I should add that, without the current flexibility of the exchange rate, countries such as Ireland, and you're seeing Greece, are taking incredibly difficult decisions, particularly on the fiscal side.

If this were a concerto, I feel we've only got to the end of the first movement, and I feel somewhat deprived. On the other hand, we've had some great contributions from the experts on the panel, and I'd like you to join me in thanking them for their open and honest answers. Thank you.