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PLENARY SESSION

MANAGING FAULT LINES AND AVOIDING FUTURE CRISES

Securing Global Growth

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In the aftermath of the financial crisis, political and business leaders must demonstrate both foresight and determination if they are to bring about the necessary changes to the global economic system and establish a framework for balanced and sustainable growth.

Moderator:

Robert Thomson, Editor-in-Chief, Dow Jones & Company; Managing Editor,
The Wall Street Journal

Panelists:

Tarja Halonen, President of the Republic Of Finland

Dmitry Medvedev, President of the Russian Federation

Nursultan Nazarbayev, President of the Republic Of Kazakhstan

Jose Luis Rodriguez Zapatero, Prime minister of the Kingdom Of Spain

R. Thomson:

Welcome. I am Robert Thomson, Editor-in-Chief of Dow Jones and The Wall Street Journal. This is the closing, crowning session of the conference.

If we were playing poker, we would have four aces in our hand. We have four national leaders here today and leading them onto the stage is President Medvedev of Russia; President Nazarbayev of Kazakhstan; President Halonen of Finland; and Prime Minister Zapatero of Spain.

Now, we will start proceedings with some oratory from a couple of our Presidents and the Prime Minister. Then, we will have what we hope to be a very dynamic dialogue, and then Prime Minister Medvedev will make some closing observations.

But I would first like to welcome to the podium, Prime Minister Zapatero of Spain.

H.L.R. Zapatero:

President Halonen, President Nazarbayev, esteemed President Medvedev, ladies and gentlemen.

First of all, I would like to express my joy and gratitude at this opportunity to speak to you on this, the final day of the St. Petersburg International Economic Forum. Spain is attending the Forum in the capacity of an invited guest. This city, with its rich history, culture, and arts, is important to the present and to the future of both Europe and Russia. This year, Russia is celebrating the year of Spain and Spain is celebrating the year of Russia, which allows us to broaden the ties between our two countries. It is a significant sign that we were invited to come here this year, when we find ourselves at a crossroads. I came here together with representatives of many Spanish companies that operate in Russia.

First of all, I would like to say that the organizers were absolutely right to pose the following question on this final day of the Forum: what can we do to prevent another crisis like the one that has devastated the economic life of the entire world? We must find an answer to this question; a question that reaches far into the future. But finding an answer is not that easy, because history shows that economic crises include financial crises, and that they recur periodically. Every time there is a crisis, governments conduct discussions and financial specialists

argue over what must be done to avoid the same thing happening again in the future. But the crisis passes; we lower our guard; and every time a new round of growth begins, we accumulate the factors that later combine to create a new financial crisis.

Nevertheless, we must not forget that crises (and the present crisis is no exception) have negative consequences which are incredibly difficult to deal with and can, as a rule, be overcome only with great effort. Where should we look for the reasons of the grave financial crisis we are currently experiencing? To simplify, we might say that the crisis that began in the United States the autumn of 2008 with the collapse of financial giants, and triggered an infection that spread across Europe and beyond, was caused by bad, inadequate regulation of the financial system. This in turn led to a rapid accumulation of risks and, eventually, to the crash of financial institutions on both sides of the Atlantic.

But when we talk about the financial crisis and its influence on concrete sectors of the economy, other factors connected with growth and bearing their own consequences take centre stage. For example, the financial economic crisis demonstrated the weakness of the original design of our economic and currency-based union, the eurozone, which went through a crisis of war-related debts in 2010. As a result, three countries – Greece, Ireland, and Portugal – now require the help of all eurozone countries and the IMF.

The financial crisis that developed in autumn 2008 and became the most severe crash since the Great Depression of the 1920s, was somewhat cushioned by countries with developing economies. This ensured that the global recession of 2009 was three times less severe, and the recovery of 2010 much faster. It's important to say this here, in Russia, because Russia, along with other countries with developing economies, will play a more and more prominent role over the next decades in the sphere of economic governance of the global economy.

If we take a cross-section of the global economy today, we'll see that while the BRIC countries were responsible for 20% of global economic growth in the 90s, today this number is 40%. This is an important fact for further development of the global economic order. One serious challenge we face today is the need to design a new, more predictable, and balanced economic structure. We are faced

with the necessity to develop cooperation and coordinate our actions. We already have an example of international cooperation: the G20. But it's still in its embryonic stage, because we need to develop a cooperative manner of action, to determine a mandatory procedure for making and implementing decisions regarding coordination. The G20 played an important role in late 2008, stabilizing global financial markets and slowing down the financial recession, despite the fact that our prospects were very, very bleak.

Today, the G20 must intensify its role rather than abandon it, in order to consolidate the supervisory financial framework of the new economic order. This will foster growth in such crucial sectors as, for example, combating the effects of climate change and the Tokyo round of GATT, and will help us achieve the Millennium Development Goals. That is why five areas play a very important role in rebuilding economic trust and in avoiding another crisis on the scale of the one we experienced. The first area is the financial system. It must serve concrete sectors of the economy – and that means transparency, a high level of order and supervision, and monitoring. In addition we must impose a duty on international financial operations. The second area is the balance of payments. We must correct global imbalances. Countries with a payment surplus must facilitate growth of internal demand, which will, in turn, lead to a better trade balance and limit generation of additional external surpluses in transparent countries. Third, economic growth must be integrated in character. That means we must complete the Doha round successfully in 2011. In this instance, it is necessary to continue to move forward in trade relations, which must become more comprehensive and transparent. Russia must undoubtedly play an important part in this, and it must be founded on partnership and cooperation between the EEC and Russia. Countries with developing economies must further support this process in order to reach the goals of the millennium. The fourth area is a stable energy model. This is an integral factor in economic growth. That is why we must also move forward in the area of multilateral cooperation in energy efficiency and development of renewable energy sources. At the same time, it is crucial to guarantee that our consumers will receive an uninterrupted supply of energy. For the EEC it's vitally important to continue consolidating EEC-Russian cooperation

in the energy sector. And finally, the fifth area: education and innovation. The competitive strength that is needed in many integrated economies is possible only if we put our money on education and innovation. This is the only opportunity to foster higher productivity and cost cutting, and to avoid the risk of imbalance as a result of extreme external debt.

As you know, the EEC has made decisive steps to lay the groundwork to enable all our countries to react to future crises. This groundwork is based on two fundamental principles. The first principle is strict regulation of the financial system and financial organisations. The world cannot function without supervision and regulation when it comes to financial products. We cannot generate excessive risks. The EEC is making practical steps towards stricter regulation of economies and financial systems. The second principle is the establishment of a European economic government or administration, which, along with cooperation in designing new supervisory rules in the financial sector, must control deficit and actively combat structural imbalances. European economic governance must also be applied to the competitive strength of each EEC and eurozone economy. And if we are ready to draw conclusions based on this serious economic and financial crisis we experienced, and even now still continue to experience, and which carried a high price (overcoming it will still require a great deal of effort), we must be guided by two fundamental ideas. First, a common-sense approach to the growth of our economies. The lesson we learned is this: we cannot allow economies to grow purely on the basis of credit. Growth must be driven first and foremost by productivity, by the resources available to each country. The second fundamental idea is cooperation: cooperation between countries, regional organisations, and major world leaders. The world must be open, and the economies of our countries must be interdependent rather than autocratic. In the age of the Internet, information and communication, we can limit only certain excesses. We can only channel spontaneous free logic of an economy in a certain direction, yet still achieve order in the interests of the common good and to foster prosperity in our countries. We can only achieve this through integration and powerful structures, and through financial and economic integration. And that is why all governments

must be firmly resolved to consider the interests of all countries as they do their own national interests. This is the only answer the G20 can offer, and Russia plays a vital role in it. Thank you.

R. Thomson:

Prime Minister, thank you very much for your thoughts. I would now like to invite to the podium, President Halonen of Finland.

T. Halonen:

President Medvedev, distinguished colleagues, ladies and gentlemen: dobriy den [‘good day’ in Russian]. Now, I will continue in English.

So, I would like to congratulate both Russia, and especially St. Petersburg, because I think that in a few years, you have succeeded in organizing this Economic Forum; it is an important international meeting and I hope also that there would be a continuation of that, because we need international cooperation in different forms in order to face the future.

So the tectonic plates, as I would call them, of the international economy have been shifting strongly already for a few years now, and that is why we are seeing many economic tsunamis. We have experienced them and I think no place has been safe from the effects.

The challenges, and also how serious they are, differ from one region to another. But what is clear is that any long-term and sustainable solution must be based on broad global understanding of the common direction.

I think we all have been well aware of the globalization development even before the financial crisis or, let us say, the recent financial crisis, and that its impacts concern far more than just the economy in a globalized world. Everything, as a matter of fact, is more and more interlinked.

Extreme poverty, climate change and terrorists have no respect for national borders. Global challenges call for global responses. Otherwise, we do not see a very happy future.

At the turn of the millennium, I remember I had the honour of co-chairing the ILO World Commission on the Social Dimension of Globalization. That was the time

when we, the older ones, we remember there were a lot of demonstrations in the streets for and against globalization.

And then finally this ILO Commission succeeded, I think contrary to all the expectations, produced a unanimous report which was called the 'Decent Work Report'.

One of the important observations of this report was exactly the same as what Prime Minister Zapatero mentioned here. It is that international financial architecture is not working properly and as a matter of fact, it is one of the weak points of the international economy.

So, I fully agree that it is very human behaviour that always when there is a crisis, there is more will to discuss what should be done afterwards.

But it is also good to remember that we, the leaders of the nation states, we have still a very strong responsibility: the work, the fact of globalization at home and that is why the nation states must do their homework in order to be able to have effective regional and global cooperation.

The other point that I already mentioned was the character of the growth. We have seen already very often so-called jobless growth, growth without new jobs.

And this is one of the challenges we have to solve, because the millions and millions of people around the world, their very, very reasonable hope is that they could get a decent job, and that is why we have to work for this very valid target.

So, as you have already noticed both Finland and Spain, we are members of the European Union. We are both also the so-called 'euro countries' and I see also some others here who belong to the same family, Austrians and others. So, I think that we are working very, very hard in order to make globalization more human, increasing the welfare of the people.

But we know that this is not a closed area. Regional cooperation is very important. In our neighbouring area, and I do not mean to underestimate the others, but there is also deeper cooperation between the European Union and Russia.

Russia is one of them: Finland, my own country, is the largest trading partner, and Finland's investments in the St. Petersburg regions especially, but also in Russia more generally, are today already quite substantial.

We see a lot of cooperation potential in the modernization process in Russia. I think we all heard President Medvedev's speech yesterday. And it is very interesting, the speech itself and also how to implement it.

Finland and the whole E.U. will support Russia's membership in the World Trade Organization, WTO, and it would make the cooperation with us much, much easier in many ways.

Russia is also historically one of the Baltic Sea countries, which is today an area of many possibilities. The nine coastal states of the Baltic Sea constitute one of the world's wealthiest areas and we have already increased public-private cooperation to improve the state of our common sea, which is still not so clean as we hoped. We are also strengthening other linkages.

So, the public-private partnership provides a good model for broader economic cooperation and also cooperation in other sectors. But that means that it has to be also good governance that we can also have confidence in each other.

Ladies and gentlemen, Prime Minister Zapatero already spoke very broadly and wisely, about the challenges we have. I agree very much. I will not repeat all the sectors, but I just would underline the importance that every nation has a right to prosper and to improve the wellbeing of its citizens. The means can be different and there is not one single model that would fit everywhere, but the certain common lines, I hope we can see.

Finland like other Nordic countries, by the way ladies and gentlemen, I call them always the "five sisters" because they are quite caring countries. The Nordic sisters, they have founded their own system which we call the "welfare society model", which is based on the "rule of law, social justice and open economy".

We are all very aware of the fact that we invest very much in education and research, but also in different a kind of social welfare, because we think that nations need all the available resources in this globalization. And in that way, we think our citizens are the resource we want to invest in the most. The system has proved its strength in numerous international services whether concerning competitiveness, sustainable development in our education.

And why I take this, dear moderator, so strongly is that trying to create social justice, giving the education it is not the kind of thing, which excludes competitiveness. It is vice versa. They are right and left hand.

So, the latest international financial crisis has emphasized the role, also of the emerging economies particularly the so-called BRIC countries as global actors. Overall, the rise of emerging economies has brought millions of people out of poverty, and this is a very, very fine achievement.

At the same time, greater prosperity and good economic growth means that these countries have to take more responsibility for global solutions. The composition of the G20 is one example of this development. No more G8, but G20, and it was very interesting to follow the ideas of Prime Minister Zapatero, how to work further.

But still I would underline the importance; G192 is the most important composition and if the audience does not all remember, that is the number of the general assembly of the United Nations. Because we have also to remember the democratic structure of the international institutions, but those who have the power should have also the responsibility.

So last summer, the UN Secretary General appointed a high level panel on global sustainability, which I'm now co-chairing with the President of the Republic of South Africa, Jacob Zuma.

Our way means to create a vision based on the three dimensions of sustainable development: economically, ecologically and socially sustainable development. There is no need to change, of course, this already-existing definition of what is sustainable development. But the difficulty is to find concrete ways to translate sustainable development into practice in people's everyday lives.

So, Prime Minister Zapatero already told us how important the different global processes concerning our future, our common future, have been, mentioning both the climate negotiations and also the UN's Millennium Development Goals.

You might remember that next year, about this time, we will have the Rio+20 Conference on Sustainable Development, and I do hope that when in 2015 we reach the end of the MDGs, after that we could find the international commitment to create something after that.

When we call them MDGs, our Millennium Development Goals, we could create new Sustainable Development Goals, or SDGs, where we could find what was important and useful in MDGs, but then also learn what we know now about climate change and the environmental status of our own planet.

So, ladies and gentlemen, "businesses as usual" does not work anymore for the future if we want to be without further crisis. I believe that sustainable solutions can be found in social stability, the rule of law, good governance, but also respecting the planetary boundaries.

So, as I mentioned concerning the Nordic welfare society, we need all the resources of society for the future. That is also true globally, and so we should also make more use of the human capital. We have not yet used enough. Young people, poor people, they are not stupid. They just happen to be poor.

And then something, which is even poorer, and that is women. More than half of the global population are women and I think that they could be employed in a much better way than they are today.

I do hope that we could hear now a little bit more about the future and I will openly confess that I will use all of that also for this UN work for sustainability.

So, thank you very much. I do hope so that all of you will also continue the discussions at home and next year, we will hear more ideas how to build a new future without these ever-recurring financial and other crises. Thank you.

R. Thomson:

Thank you, Madam President, for your thought-provoking contribution. Now, I would like to invite President Nazarbayev of Kazakhstan to the podium.

N. Nazarbayev:

Dear Mr Chairman, colleagues, guests of the Forum, ladies and gentlemen. First, I would like to express my sincerest gratitude to the Russian President for his invitation to participate in this Forum, and for the traditional Russian hospitality. In recent years, the St. Petersburg Forum has become an important tool for developing effective economic strategies at regional and global levels. There is no doubt of the urgency of the Forum's current topics. The world is entering a

period of post-crisis development. We have every reason to say that this will be a difficult, critical stage of human development. Whether or not we can find a world development formula acceptable to both politics, and all participants in the global economy, depends on a great deal of factors. First of all, on whether the global economic and currency system will undergo fundamental changes. Today, the need for these changes is evident all around us, but we have yet to make a single practical vital decision. I've heard that the President of the People's Republic of China, Hu Jintao, spoke about this. This subject was also raised at the G20. Secondly, how these changes will impact the lives of the majority of countries and their ordinary citizens. The future of the entire world depends on us understanding the causes of global problems and finding solutions to them. I am convinced that the St. Petersburg Forum will make an important step in this search.

Dear guests of the Forum, the global financial and economic crisis has led to deep economic cracks that are still being papered over with cash in the form of various and ever-growing anti-crisis packages of cheap money. But this doesn't make the great fissure in the monolith that is the global economy go away, it just hides it a little. I doubt we can overcome this challenge using such methods. We still have no effective counter-measures against new economic threats, nor a reliable global reserve currency, nor groups of regional currencies that could largely guarantee the safety of savings and relative economic stability.

We remember that nobody was capable of predicting the crisis that developed in 2008-2009: not the best minds in economics, not the Nobel Prize winners, and not a single expert organisation. The situation in which we find ourselves today isn't much different. It is becoming evident that printing more out dated currency isn't likely to contain new economic shocks in the long run. They are not equipped to prevent the social outbreaks that stem from the internal imbalance of economic development in a number of countries. They are not equipped to prevent soaring unemployment, considerable budget deficit and high levels of national and personal debt. We can see this on the example of the countries of the EEC – Greece, Spain, Portugal, and Ireland – as well as Middle Eastern and Northern African countries.

Overall, revival of the global economy alone is not an indication of its on-going stability. Uneven economic development carries with it great risks. Developed countries are showing moderate growth, but their unemployment levels remain high. At the same time, many developing markets are experiencing considerable growth that carries a high risk of burnout.

The post-crisis period has been pointedly marked by challenges in the sphere of resources and food supply. At present, more than 4.2% of the global GDP goes towards oil spending, which exceeds the historical average of 3%.

The issue of food supply has grown more dire under the conditions of the global crisis. Some forecasts say that 10-15 years from now, food supply will grow by 20-30%. According to the UN, 960 million people were living under the threat of hunger in 2006. In 2009, this number exceeded a billion people around the globe. Increasing food production expenses, together with deteriorating natural conditions and climate change, along with other factors, are combining to create the danger of a large-scale food supply crisis. Globalization has intensified economic competition and social inequalities. Some experts estimate that half of the global wealth is concentrated in the hands of just 2% of the population. Active trade in derivatives continues, especially due to the raw materials market which has been swiftly growing of late. Further inflation of speculative capital continues. There is no reasonable balance between the financial sector and the real economy. All this underlines the necessity of taking effective, dynamic measures aimed at reforming the global financial structure as soon as possible.

It's time to stop talking about this and start acting.

A real way out of the global crisis will be possible only when the international community begins a step-by-step approach to a new, equitable financial structure. This growth will obviously be driven primarily by the leaders of the new era. But the question remains: when will this era begin? Before it can happen, I think we need to have precise ideas about a set of signs or criteria that would indicate the end of the crisis and the start of this new era.

I defined these criteria more than two years ago, in February, at the very start of the crisis, in my article *Keys to the Crisis*. So far, none of the statements made in it have been refuted: not by the G8, not by the G20, and not by the expert

community. The first criteria is legality. We must implement a global law or convention that would at least cover the question of global currency, developed by key users and ratified by the majority of the world's nations in the interests of their people. Incidentally, the Special Committee of the United Nations voiced this proposal. And if my colleague, President Halonen, sits on this committee, I think she must examine the root of all the problems. The second indicator is that of democracy and transparency in the currency issuing procedure, and governance of the global currency issuing mechanism. There is no democracy in it. We, the users, have no idea what's going on in there. The third indicator is monitoring of the entity that issues the global currency by the user and the international community as a whole. The fourth is the measure of the global currency issuer's responsibilities to its main subjects – countries, corporations, and citizens – and the international community as a whole. Next, even a cursory evaluation will show any expert that no changes have been made globally along any of these lines.

The Astana Economic Forum, which gathered a great number of experts and six winners of the Nobel Prize in Economic Sciences, forwarded its consolidated opinion regarding this question to the G20. The old Western development paradigm, which has led the world into the global crisis, has pretty much discredited itself. As uncomfortable as it might be to say this, we must begin to say it. The new paradigm that is coming to replace it will, within the next decade, become the mainstream of the 21st century. There is no doubt about this.

The answer to the key question of our plenary meeting – how to avoid another crisis in the future – is extremely short and simple: we must act swiftly, coordinatedly, and decisively to overthrow the ineffective currency and financial structure. In this regard, I would like to focus the attention of our Forum guests on a number of important issues.

First, global challenges require us to leave behind dependence on raw materials and make the transition to stable development based on innovation. Kazakhstan has developed its own continuous action program aimed at counteracting global challenges. In 2009, the national economy grew by 7%. Over the last 15 years, Kazakhstan's economy has grown by 1,200%, and has reached USD 10,000 per

capita. This is unprecedented for our nation. Now, we are setting a clear goal of maintaining the same rate of economic growth. By 2016, the country should become a high-income level country by raising its per capita GDP above USD 16,000. Last year, we implemented a strategic development plan that will take us through to 2020. It defines key directions for modernization in the next decade: accelerated diversification of the economy; development of human capital; a favourable business and investment climate; high quality of services provided to our citizens; and ethnic harmony. By 2015, we plan to implement around 500 projects with a combined value of about USD 80 billion, and to create more than 300,000 permanent jobs. These programmes have been carefully designed and provided with financing and the appropriate resources.

We realize that human capital is the foundation of stable economic development and the principal driving force behind innovation. We have already created a network of specialized schools across Kazakhstan in order to develop the potential of talented children. We are working on re-focusing our universities towards innovative activities. In order to develop our innovative potential, we created a new international university and an innovative technology base that works in tandem with it. These informational platforms will become world-class scientific centres and will generate and implement future innovations. We are implementing massive infrastructure projects, such as the Western Europe–Western China highway, which stretches along 8,500 km, of which 2,700 pass through Kazakhstan. It will be completed next year. There is also the Aktau Port development, and railroads that connect the Persian Gulf and the People’s Republic of China, via Iran. We are developing Asia’s largest business and financial centre in the city of Almaty. We will do everything in our power to ensure that Kazakhstan becomes Central Asia’s business hub of trade and logistics, and a regional knowledge centre by 2016. This will bolster economic cooperation between countries, and will improve the standard of living in our country and across the world.

Second. No country on its own can overcome global challenges and guarantee further development without new economic shocks. That is why Kazakhstan has always supported the integration process, be it within the framework of the CIS,

the EurAsEC (the Eurasian Economic Community), the SCO (Shanghai Cooperation Organisation), and other associations. Four years ago, here in St. Petersburg, we were discussing the formation of the Customs Union of Belarus, Kazakhstan, and Russia. Today, it is already functioning successfully. In the first year alone, trade between Kazakhstan and its Customs Union partners grew by more than 40%. Trade between Russia and Kazakhstan increased by 28% in the first year, and has already grown by 50% in the first quarter of this year. In 2012, we will move towards more in-depth integration of the Customs Union, and towards a unified economic territory that will ensure free movement of capital, labour resources, goods and services. Belarus, one of the Customs Union members, is currently facing dire conditions. I think Kazakhstan and Russia must support Belarus – of course if our help is reciprocated. In other words, we could make corresponding investments into the modernization and privatization of large Belarusian objects, which would help Belarus make the money they need to solve their current problems.

I want to mention that a number of Eurasian integration ideas I voiced at the last St. Petersburg Forum have already begun to take shape. We have already created the Eurasian Economic Club of Scientists, Eurasian Business Congress, and many others.

Third. Joining the WTO now is, obviously, beneficial and strategically important for us, despite the creation of the Customs Union. At the same time, we must take into account that exports of the 34 most highly developed countries in the world, which have just 15% of the world's population, account for more than half of global exports – 52.3%. At the same time, the share of 150 developing countries, that's the remaining 85% of the human race, is just over a third of global exports. In some ways, this is caused by the unequal conditions of agreements signed within the framework of the WTO. But if we take agriculture, for example, it is the most vulnerable industry from the perspective of competitive strength, not only in Kazakhstan, but in virtually every developing country. That's why it is crucial that we continue to provide government support to this sector. Considering the current state of the global economy, the countries of the Customs Union must comply with the conditions of only the most basic WTO

agreements, leaving aside the so-called 'WTO-Plus' package which goes beyond the basic agreements with which we are strictly required to comply. It's also crucial that the countries of the Customs Union develop principles of integrated customs policies, both within the common customs territory and beyond. The World Trade Organization is an asset of all humankind. Kazakhstan, much like Russia and other countries, strives to become a full-fledged member. We are determined to complete the process of joining the organization productively, and to work with all partners to strengthen its influence on the global economy.

Fourth. Today, the world is facing new challenges of global energy security. The developed countries, with a combined population of about a billion people, consume nearly twice as much energy resources as the rest of the world. Further conflicts over sources of raw materials will only intensify, which could lead to a new escalation of global unrest. In reality, the International Energy Agency champions only the interests of countries which import energy resources those involved in redistribution of oil and gas. In addition, there is no coordination in the area of alternative energy research. That is why I believe that the need has arisen to create a global energy organization. It must coordinate the extraction and distribution of all types of energy resources across the globe, and also coordinate scientific research. This organization must monitor and regulate the issues of energy security. This will allow us to use any energy source in the world, including nuclear energy, without which we cannot survive, without any unnecessary problems and without panic. By developing collaborative approaches to balanced energy use, the international community will lay the foundation for global environmental safety.

Dear guests of the Forum, I am convinced that today's discussion will offer the world new initiatives aimed at the steady post-crisis growth of the global economy. I wish all participants success, and productive work. Thank you for your attention.

R. Thomson:

President Nazarbayev, thank you very much for your provocative thoughts. Now, for the next 30 minutes or so, we are going to have the equivalent of all of you in

a lounge room and a fireside chat without a fireplace. So it is a bit like a salon. It is going to be a little dynamic. Hopefully, a little bit unexpected.

And Prime Minister Zapatero, we all have the pleasure of being in St. Petersburg discussing the health of the world economy and the post-crisis situation. To be honest, much of the attention of the world at the moment is focused on southern Europe and the southern European economy. There has been discussion in the last couple of days about a verifiable and voluntary solution for Greece. In English, when you combine "verifiable" and "voluntary", you get another word starting with "v", "vague".

Don't you think that Greece and the financial institutions with exposure to Greece should confront the harsh reality, recognize what losses they have so that the world and Europe can move on and confidence can be restored in other southern European countries?

H.L.R. Zapatero:

First of all, I would like to say that in talking about the countries of southern Europe, you risk taking a somewhat simplistic approach. After all, every country has its own unique circumstances, its own nature, its own peculiarities. We must define more precise categories.

Europe is currently undergoing a phase of construction; more highly developed construction than the process that currency integration entailed. And now, Europe finds itself face to face with a challenge: will we, on one hand, be able to respond to the difficult situation with the debt of three countries – Greece, Ireland, and Portugal – as a united front, and in a new, unprecedented way? This requires the support of our countries, with the help of an integrated currency; our support not just as a currency union, but as a political union. That is why the political process of integration into the European Union is important.

On the other hand, Europe is facing another challenge: we must create an economic administration, an economic government that would take preventive measures, thus avoiding imbalance and solving the issue of turning the eurozone into the competitive and productive area it has been historically. I should remind you that, thanks to the level of its development, Europe is still the region with the

highest standard of living. I should remind you of the confidence people have in the eurozone. The euro is not undergoing a crisis: the euro is a strong currency. The crisis stems from the debt of several countries within the eurozone. And the countries of the eurozone are taking responsibility for overcoming this crisis. We accepted this responsibility, and we will fulfil it. The global markets, big countries, and public opinion must understand that we will support Greece using measures that make market sense. We will undertake structural reforms in those countries that need them, including Spain. We will fulfil the conditions of the Stability and Growth Pact, which has been updated with tighter demands. We will now be monitoring the situation for disproportions and imbalances, and will develop legislation that will oversee financing of financial entities in order to improve the health of our financial system.

I hope that next week, the European Council will issue the response necessary not only for Greece, but for the eurozone and the entire global economy. And I would like to stress that this response will be, first and foremost, a political one. If the countries of the eurozone uphold their commitment to help Greece, it will be a political commitment. I want to stress the word 'political'. This serious crisis has exposed our problems, and it teaches us that politics must play a role in our economic future. It also teaches us that government response and continuous supervision, regulation, and guidelines form the backbone of politics, and they must be a factor in the economy.

If we are experiencing a crisis, the main reasons for it are ideological problems that should not influence the economy. It is connected with a lack of rules and lack of limitations, because we allowed our economy to regulate itself, especially in the financial sphere. These are the extravagances that led us into this crisis. The people criticize their government and criticize political representatives. We have created a large number of independent supervisory bodies whose responsibilities include the monitoring and control of everything that's happened. But they couldn't handle their functions, even though that was their job. But when the crisis hit, who was held responsible? It was we, the government. It is on the political level that we can put an end to what's going on right now and prevent excesses. Just as politics and democracy have managed to ensure preventive

measures for infectious diseases, the creation of the World Health Organisation and the education system, or managed to stave off the risk of poverty for retired people. It was politics and democracy that offered solutions for these problems. And now, I would like to give our citizens a new answer, offer them a response; offer them protection from the challenges they are facing as a result of debt.

Of course we must use restrictions. I would also like to note the issue of employment. I believe the fight against unemployment can also be fought on the political level. This fight is related to the creation of standards and rules. And we must also examine what triggered the financial crisis. We must revive the important role standards, rules, and regulations must play in the economy; of course, within a free market economy. This will allow us to restore order and the rights of our citizens, and avoid the imbalances that have been affecting us of late.

R. Thomson:

President Medvedev, compared to Western Europe, and to the United States, Russia's growth rate is quite impressive. But compared to India and China, to put it politely, it is more modest. What is Russia's right rate of growth, and will the European economic crisis at present threaten Russia's growth rate?

D. Medvedev:

Let's start with Europe, the European Union, and the euro. We wish our European partners a quick recovery from this difficult period for the simplest of reasons: the Russian Federation is a major partner of the European Union, and the European Union is our biggest partner; the volume of trade between us and the EU reaches USD 300 billion a year. That's a lot. Plus, we keep about half of all our currency reserves in euros. Therefore a great deal in our country depends on how things pan out in the European Union. The problem with the euro, if you consider it superficially (and so far, I think, no one has analyzed it in-depth, but it's floating on the surface), is that in all of human history, we've never had a situation where one strong currency was used in several countries. Some of these countries have strong economies; others, sadly, have weak ones. And it is

this particular contradiction that will always create problems. Nevertheless, I think these problems can be overcome, especially in the context of the world's march towards a global currency. President Nazarbayev had some very interesting things to say about this. We want to overcome these problems as soon as possible.

You talked about reliable and voluntary decisions. If it works, it will be great. For some reason, I remembered about the voluntary surrender of livestock to collective farms that happened in our country back in late 20s and early 30s. That wasn't a success. I still hope that the voluntary decisions made in Greece will be more successful, and the European Union will help that happen.

Now on to growth rates. You asked why our growth rates are different from those of China and some other countries. The answer is quite simple: it's because Russia is not China. That's obvious. We have yet to step on the road down which the Chinese economy has been moving for the last 25-30 years. That's the first point. Secondly, there are specifically Chinese factors and specifically Russian factors. Since President Hu Jintao, who visited our Forum yesterday, isn't here today, I won't go into the purely Chinese factors, as that would be impolite on my part. But there are purely Russian factors which I spoke about yesterday on this very stage, in my opinion, very candidly; maybe even too candidly for this kind of forum, because at the Forum we usually talk about how great things are going in the economy, and why we're inviting all investors. I think the goals of discussions in this vein are not limited to creating a positive picture (which undoubtedly exists to some extent), but also include a discussion of challenges we face. If we overcome these challenges, I believe the Russian economy's growth rates will be no worse than growth rates in China or growth rates in Brazil, or in other countries with growing, rapidly developing markets.

We have our own problems, and we have to solve them. In any case, that is what we are trying to do. Annual growth of a little over 4%, maybe 4.5% (I hope) is not bad overall, but it leaves room for improvement. So we are firmly resolved to surmount this problem.

R. Thomson:

President, thank you very much. President Halonen, as Prime Minister Zapatero said, that's not quite right to refer to Southern Europe. But to be even more unfair, there seems to be an increasing divide between what you would call Northern Europe and Southern Europe. And that the countries of Northern Europe show us how they are contributing more than other people. Some people in some countries show us how they are contributing too much. And it's creating stronger forces of nationalism in what is meant to be a pan-regional organization, the EU. How worried are you about these nationalistic forces?

T. Halonen:

So just a while ago I called us the Nordic sisters, but I wouldn't call them the Southern brothers. So even between the Nordic sisters, the other difference is that only Finland belongs to the 'euro countries'. Sweden and Denmark do not, and Norway is not even a member of the EU. And Iceland has already had its financial crisis, but she seems to survive very well, recovering very fast. I think that's due to an adequate basis of the society.

I fully agree what Prime Minister Zapatero said, that the EU is facing a very interesting problem because the euro, and the euro area, is not in crisis. The euro is still a very strong currency. But the situation where the fiscal and debt crisis of certain member countries in the euro zone created, of course, a certain kind of uncertainty and a lot of worries. We had parliamentary elections in Finland just in April, two months ago.

We have been trying to make a new government for these two months. It is the longest time anybody can remember in Finland, but I have also the happy news that we will have a new government next Thursday. It will be just ready, I am very convinced, to take part in the meeting of the European Council to discuss these not so easy issues – what Prime Minister Zapatero had described.

One of the big issues of the recent Parliamentary elections was exactly this; that is why we are saving, why we are cutting our expenses in order to pay for something else. Of course this is a very simplified issue. But it is also true that the whole European Union is a political animal. It is a political organization. We have promised the people solidarity and we know that together we are strong.

Not even the strongest EU country, Germany or France, is a big economy in a global sense. So we need each other. It is not just on charity and solidarity, we need this.

And so it has already been mentioned about the global currency and dreams about that. This EU idea of the euro currency is one of the new ideas, trying to create a common currency between a strong union of independent states. Because the EU is not a state, it is just a union of independent states. So I can say very, very strongly that in spite of these recent difficulties in parliamentary elections, in which some people were very sceptical concerning the euro but more broadly the European Union or more broadly international cooperation.

So the large, large majority of our citizens voted, like they did before. I mean that was the overwhelming large majority who said, "Yes, it is a difficult problem but we have to face it together and solve the issues together." But this is not the question, that Finland and some other countries are not doing better; that we will be the good girls of the class who is doing the homework of the others. No. That's very clear; no because everybody has to do their own duties, their own homework.

And I am very happy also to notice that Prime Minister Zapatero and I were thinking the very same way. And also in the same way what I described concerning the Nordic sisters, the same with the southern brothers, if you want to call them that. They are all different. The problems were different in Ireland, different in Portugal, different in Greece.

So the fact is that if you feel sick, it doesn't mean that everybody can take the same medicine. But it is good to notice that they have to do their own work, and we will show enough solidarity and common will to keep our own euro strong. But also that we will create even better functioning single markets. We need it and we want it and we will do it. Thank you.

R. Thomson:

Thank you President, it sounds like the European economy is a little bit like a school classroom. The girls are well behaved and the boys are badly behaved.

T. Halonen:

Sometimes I have noticed that some gentlemen don't like this but I have noticed that they remember it very well afterwards.

R. Thomson:

We have been trying not to take it personally.

Prime Minister Zapatero, as you know there is a lot of debate at the moment about the word "default". What is technically a default, what is a default, by definition?

Shouldn't it just be a default in Greece and the private institutions which have made these investments take the hit, that the market really determines that they should? And would that allow the discussion to continue in a more intelligent way and take some of the pressure off Europe?

H.L.R. Zapatero:

Before I say a few words about Greece, I would like to revisit the question of good girls and bad boys. And about the different Europes. I think this is a narrow view, and history confirms it. There were times when Germany and the German economy were stagnant, while the Spanish economy was growing by 4% a year. There was a time in the 90s when Finland went through a serious crisis. We know about the financial crisis in Sweden. But they all overcame their crises. Nobody knows what the future will bring. Today, we see something like a picture of Europe where the north is characterized by strong competitive strength and growth, although it has its own problems, just like any other country has. And that includes Germany. I assure you, Germany also has its own problems. Spain is fulfilling its obligations and helping Ireland, Portugal, and Greece, along with Germany and in the same proportion. We give money. We have faith in collaborative projects; we have faith in Europe. That is the very essence of Europe. The essence of Europe is the knowledge that 500 million inhabitants will be able to live in safety and comfort. If at various times one or another country faces challenges, the other countries support it. It's a cooperative project; it's just like living in the same country. This won't lead to a universal system ruled by

competition between countries. We take the long-term view. That is why I want to say once again that I don't accept analysis that focuses on short-term goals. We can look at it as a photograph – and the photograph doesn't reflect the realities of the European Union and this project. Some pay; others receive. Over the last 20 years, Spain has received a large amount of money from European structural funds. This money went to pay for our development. But starting in 2013, we will become net investors into these funds. We understand this and accept complete responsibility for this commitment. Why? Because we have gone beyond the certain median per capita income level, and we know that we must promote the growth of specific countries, and by doing that, promote our combined growth.

The market is becoming increasingly integrated. Our objects include policies aimed at increasing productivity, clear-cut policies in the sphere of education, healthcare, and so forth. To be united and supportive. And the past teaches us that we must definitely change the future together. Iceland is in the north, isn't it? And Ireland is no Portugal. We should probably add these details to the general picture. We have to approach this historically, from a broad perspective, in order to understand what this European project means. Europe will solve the problem of Greece. So far, we have been unable to make that happen. When we were implementing the euro, nobody thought there would be a time when developed European countries would face a debt crisis. But Greece will overcome this situation with the help of Europe and the IMF. Of course this will come at a great price, and will take many years and a great deal of effort. But as long as we are working on this, the private sector will take part voluntarily in this process.

That's why we have no options other than the European compromise and the role the IMF must play in it, with the rational participation of the private sector. We have to broaden our perspective, broaden our horizons. Human history and the history of the global economy does not leave out any country. We might encounter problems with the balance of payments; with the economy. But history teaches that as long as we are united, we can find better solutions to our problems; can maintain proper levels of prosperity; and can guarantee greater security for our future generations. These are the current conditions in Europe. Europe is ahead of certain other countries in terms of currency, for example, and

in terms of the integrated market. And I hope Europe will prove that we have the wherewithal to create a highly controlled financial system, as well as mechanisms that can anticipate risks, without giving up social rights and Europe's prosperous nations that have no equal anywhere else in the world.

At the same time, I have to say that even though we are currently facing challenges, I am absolutely convinced: Europe will be able to get out of this situation. And although it won't be easy, and we are plagued with very serious problems and very serious uncertainty, I believe we will meet these challenges.

R. Thomson:

Yes, President Halonen.

T. Halonen:

Yes, I would even continue a little.

When I said that everybody has to do their own homework, so that is quite like what Prime Minister Zapatero means. And we had our very, very difficult financial crisis in early 1990s. That was before we became a member of European Union. We started the whole process with an arrogance that we were a very well to-do country before that.

But then, during our candidature to the European Union, we noticed how difficult it is to solve these issues. But I underline, I think, or we underline the same fact: every country has to do their own homework but together, Europeans are strong. And that is very important.

And that is why I said that I am very, very sure – I am convinced – that we will have the view and we will have the resources to do that. Because we know that in the future, European countries need each other. Only together can we be a global actor.

The point concerning the European stability mechanism, of course, we know that that the system concerning the euro, as I said, that was something new what we are doing and it is quite natural that we might need to repair it a bit. But that should also be done together. I remember those other times when Germany, France and some other countries wanted to do it by themselves and we said,

"No, we have to do it together. It is our currency." And that will be the fact also for the future.

But like you already asked, dear moderator, about the social reflections concerning money. So money is not only money. Money has also always a social dimension – unemployment, the market economy and its dynamics. We do hope that the market will improve. We would like to continue milking, not killing the cow.

But then other parties, of course also the private sector has to bear its own responsibility, and that is one of the big political issues. And it will be in the same agenda concerning, for instance, creating jobs, decent work and also, what is the role of the free movement of the people and the goods in Europe. So, a very challenging and fantastic agenda but very, very difficult in practice.

R. Thomson:

President Medvedev, before you offer a few closing thoughts, can I ask one puckish question.

Here we are in the beautiful city of St. Petersburg. You have a very small group of friends in this room. Are you going to run for President next year? Is this not the perfect moment to make public your thoughts?

D. Medvedev:

I can't say you shocked me with the originality of your question. You know, in the last 15 minutes, I've been feeling like I am not just among friends who came over to talk about economic development, but that I am sitting in a geography class in a school for students with behavioural problems, judging by the issues we've been discussing and the comparisons my colleagues were making just now.

I have stated my position on this question many times. As soon as I feel it's the right time to declare whether I will or I won't, I'll go out and do it. But the Forum is not the best venue for this, and neither was the press conference, though when I talked about this at the press conference, the reporters were disappointed. I guess they demanded that I do so immediately, right there in the hall, because it would have been dramatic and would have looked good. These decisions, as a

rule – and I have already talked about this as well – have to be carefully considered and presented in a very specific format. So I will announce my decision. One thing is for sure: I won't be able to avoid this happy fate. I won't be able to avoid announcing my decision to the Russian people and all interested parties who are here today. You won't have to wait much longer. But every story has to have an intriguing storyline. Otherwise life would be pretty boring. Let's maintain the intrigue a little while longer.

R. Thomson:

Mr President, your address then, please.

D. Medvedev:

Dear friends, esteemed President of Kazakhstan, President of Finland, and Prime Minister of Spain, I am very happy that we have all gathered here today to talk about economic development, about how our countries are doing, what we've been doing lately and what we are planning to do in the future. Yesterday, I spent half an hour talking about what I think is the right course for our country. I hope those who heard my address thought it was at least somewhat interesting, because I think forums like this one are a good place for discussing the most pressing and the most urgent challenges in our countries' development. I've just been listening very carefully to my colleagues. I want to say that their speeches were very interesting, and made me think of certain things which I'd like to share with you.

Representing the Spanish Government, Mr Zapatero spoke about how we found ourselves in this crisis and what factors accompanied it. He mentioned the role of economic development, which was absolutely fair, and talked about the lessons the crisis has taught us. Every crisis has its lessons.

Last night, when we were discussing the state of our economies and the economy of the European Union, I told the Prime Minister that when we met in the United States back in late 2008, we had the old, outgoing administration, and I had a feeling our meeting would be fruitless. I had a feeling that for various reasons, including the energy of some of my colleagues who had organized that

forum, we would simply meet, sit around a big table, and go back to our separate corners. I thought that because of this, the crisis, would last for a very long time, if not forever, while the rules of international financial relations would remain the same. Today, I'm happy to say, I was wrong.

Whatever happens, however we characterize what the G20 has done so far and hasn't done yet, we were able to come to an agreement on a great deal of very important questions. But this doesn't mean our work is done. Of course we must continue to work in this direction. President of Finland Tarja Halonen said that we should be discussing these issues not just within the G20, or especially the G8, but in the United Nations. She is completely right, because even the G20, which accounts for 85% of the world's GDP, can't pretend to have a monopoly on the issue. The G20 must take into account every country's position and produce universal recommendations, and quite possibly, bring them to the United Nations. But we must continue the work we were doing. We have plenty of problems left unresolved. What are these problems? We all know that we managed to redistribute the quotas for participation in the International Monetary Fund and the World Bank to some extent in order to accommodate swiftly developing economies. But we haven't completed this work, although we must. The rules of economic regulation are still quite archaic. President Nazarbayev was completely correct in saying this. Auditing, financial reporting; these issues remain a blank page. We've done virtually nothing in this sphere. We must remember the procyclical nature of crises, regardless of what we might think of cycle theories and economic theories in general. Prime Minister Zapatero and I discussed this subject yesterday. He believes that policy must lead the way. He is very firm on this. However, a recurrence of this kind of hardship is still possible. That's why we must act vigorously, act everywhere: at the G20, at other international forums like the SCO Forum, the BRIC Forum, and many others. Naturally, the European Union will also be meeting and working at conferences such as this.

President Halonen spoke about a very acute problem that has a real importance for all of us. That problem is the loss of jobs. At one point, the crisis caused a jump in unemployment so severe that we were all, frankly speaking, quite disturbed. I remember the same mood at the G20. Still, countries that worked to

meet this challenge have already achieved certain success. I am convinced that the countries that are still struggling with this (for example, this problem is particularly severe for our Spanish colleagues) will reach the goals they've set for themselves. Because nothing should be more important for a nation than creating jobs, new jobs. This is truly where we need to join efforts. That's where we must focus our financial resources in order to try to solve this problem for millions of people; not just in our countries, but in the countries that are organically linked to us by a great number of economic interconnections.

The president of Kazakhstan, Nursultan Nazarbayev, said that we are filling the cracks left by the crisis by pouring additional financial liquidity into them. This is true, and it has certain advantages and certain dangers. At some point, we spliced our economies together. But will the seams hold? That's the question. And it's clear that additional financial injections alone won't solve the issue of growth. Recovery is evident in the global economy as a whole, and in each of our countries. But it's still very modest. I remember how, probably two years ago, we were passionately talking in this very room about what shape this recovery will take, what letter it will look like on a graph. Will the recovery be shaped as a V, or will the growth follow the shape of an L? Chief pessimists were convinced that growth would recover, but would eventually turn into a W, which would plunge us into another loop of the crisis.

Now we understand how it all happens. Maybe the outlook is a little more optimistic than we expected, but we've met new threats which our colleagues discussed at length. I am talking about the threats coming from certain countries of southern Europe. I am convinced we will persevere in this regard as well, with the help of integrational mechanisms and the mutual influence of our economies. Yesterday, Prime Minister Zapatero and I were talking about what would have happened to the global economy if the crisis of 2008 had instead happened 50 or 100 years ago. It's a terrifying thought. Because the global economy had never experienced a crisis of this scale. Though you might say the global economy never had the right conditions for this kind of crisis.

Our modern economy is global, and, despite all its faults, globalism has advantages as well. We all strive for integration. Our European colleagues have

already shown great results in this respect. Along with Kazakhstan and Belarus, we are trying to define our own goals here and create our own international union. I am convinced that we will also succeed and will create an integrated economic territory. So you see, it is precisely thanks to integration that we can make swift decisions that allow us to overcome the crisis. We didn't have that 50 years ago. And we didn't have that 100 years ago. And that's the advantage of our modern life, no matter how critical we might be.

Dear colleagues, I would like to thank you sincerely for coming to St. Petersburg. That goes also to the representatives of the business community who already love this St. Petersburg, visit us regularly, sign deals at the Forum, mingle and listen to world leaders. This is very important, because if business leaders don't communicate with each other, we will be in a heap of trouble. It will mean we have big problems. I was happy that even in 2009, when people weren't in the best of moods, the Forum still gathered great numbers of directors of the world's largest companies. I would like to give heartfelt thanks to my colleagues – the directors, leaders of their nations, and to thank them for their active and energetic participation. Yesterday, President of the People's Republic of China, Hu Jintao, gave an interesting speech about the ways in which China's economy is developing. I spoke with the President of Sri Lanka, Mahinda Rajapaksa, and Prime Minister of Belgium, Yves Leterme. My colleagues from Finland, Spain, and Kazakhstan are also here today.

This means that, first of all, we want to talk; we want to discuss all sorts of questions. Secondly, we recognize the influence we have on each other. And this is probably the most important point. We are not closed off; on the contrary, we openly talk about our problems. That is precisely why I am convinced that we will be successful. I want to thank you one more time for coming here.

And one last note. Yesterday, when I got here, I was pleasantly surprised by the weather in St. Petersburg. Our weather isn't always kind to us. But we had sunshine; we had warmth. Last night, we were talking about how comfortable the weather was. Then, my friend, the Prime Minister of Spain, says, "I'm going jogging in the morning." In the morning, we met, and I asked him, "Did you go jogging?" He says, "No. It started raining. I don't jog in the rain". Why am I telling

you this? Our economy is as variable as the weather in St. Petersburg. Sometimes it's sunny; sometimes it's rainy; but we must work in any weather. And when we go to work, we understand, regardless of the weather, that sooner or later, the sun will come out, and our countries will have stable growth and progress. And that's what we are all working for. Thank you for your attention.