

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 20–22, 2013**

**The Global Growth Agenda
UNLOCKING INVESTMENT TO ACCELERATE GROWTH
G20 Agenda. Panel**

**JUNE 21, 2013
11:45–13:00, Pavilion 5, Conference Hall 5.3**

**St. Petersburg, Russia
2013**

Moderator:

Chrystia Freeland, Editor, Thomson Reuters Digital

Panellists:

Sergey Belyakov, Deputy Minister for Economic Development of the Russian Federation

Kris Gopalakrishnan, Co-Founder, Executive Co-Chairman, Infosys

Jan Hommen, Chairman of Executive Board, Chief Executive Officer, ING Group NV

Klaus Kleinfeld, Chairman, Chief Executive Officer, Alcoa Inc.

David Lipton, First Deputy Managing Director, International Monetary Fund

Frederic Sanchez, Chairman of the Executive Board, Fives Group

James Turley, Chairman and Chief Executive Officer, Ernst & Young

Front row participant:

Kishan Pandey, Director, Russian Direct Investment Fund (RDIF)

Media presentation:

In the past 18 months, with the exception of some in Europe, banks are recapitalized but reluctant to lend, say companies. Banks themselves say the problem lies with firms being unwilling to borrow and invest because of lingering nervousness. So what should business, finance, and governments do to fully restore confidence and unleash investment potential? Let the debate begin.

C. Freeland:

Good morning. Thanks for being here, everyone. I was really excited to be invited to moderate this session because I think this is really getting at the single most important issue in the world economy, which is: how do you actually unlock economic growth? It is great that we are able to focus on that and not focus on averting a new Great Depression, which was our preoccupation in recent years. This is a really pressing issue, and I am delighted that we have assembled a group here of international CEOs, business leaders, and government officials, who I hope will have given us that answer to this very pressing question by 13:00! Gentlemen, I hope you are ready to deliver.

How we are going to do this is we will just go along the panel. Each panellist will give a brief three or four minute view of his take on how to approach this question, and then I hope we will have some time for a really robust discussion of the key issues. Finally, maybe for the last 15 minutes or so, we will turn it over to questions. I am Chrystia Freeland with Thomson Reuters. We are in the beautiful city of St. Petersburg. We will start with our host, Sergey Belyakov. Sergey is the Deputy Minister of Economic Development.

S. Belyakov:

Thank you. I absolutely agree with what we saw in the video before our session. This is really a problem. We discussed it yesterday at dinner with the heads of major US companies. Currently, investors are not simply choosing between different markets and deciding which ones are the most attractive for investment. They are

deciding whether to invest or save. They can invest or they can reap profits from those markets in which it is still possible to make them. As a case in point, during the crisis in 2008 we saw an increasing outflow of capital. The reason for this outflow was the fact that Russia, which was then growing faster than many markets, made it possible for the divisions of companies that were doing business here to accumulate profits. This profit was a way of offsetting losses companies were suffering in other regions. This demonstrates the strong dependence of one country on the state of the global economy as a whole, and it would not be entirely correct to say that the amount of investment in Russia, in emerging markets, and in the BRICS countries is falling. What is actually happening is that the level of investment activity in the world as a whole is slowing down. This is a serious problem. If it were otherwise, it would have been easier for us. We would recognize that we were competing with certain regions, countries, and markets. We would understand the playing field: where we were winning, and where we were losing, and it would be clear what we needed to do. As it is, we have to convince investors not to save their money but to invest it. Only after taking this first step can we begin to convince investors that they should invest in the Russian economy and that it provides opportunities to make money. Investors are guided by very clear principles: will they be able to earn a return on their investment or not? This factor is important not only in terms of the speed of return on investment and the amount of income, but also in terms of market penetration. This is a very simple approach and rightly so.

Given these conditions, it can be hard to convince ourselves to take the first step and make a decision to invest. It is a challenge for us, just as it is for other countries. I agree with those factors that have been named as reasons not to invest. We conducted this analysis of the Russian economy, and we ended up with the same set of factors. However, our situation is unique. In recent years, we made up for the lack of private capital in the economy by significantly ramping up our level of public investment. Right now, we do not have that same option and this represents a serious challenge for us. We have to make up for the lack of public investment through private capital, though the inflow of such capital is insufficient. We must

offer some incentive so that it can begin to flow into the Russian economy and so that Russian capital, which is already here, does not get invested abroad but remains in Russia.

We understand what we need to do. I would like to be able to say that our proposed measures, in terms of monetary policy and policies to lower interest rates, to limit government involvement in the economy, and to optimize the investment programmes carried out by natural monopolies, will achieve a certain result. We hope that these measures will be effective, but I cannot yet confirm that they will be. We are now trying to take such measures and trying to quickly assess whether we are moving in the right direction and achieving certain effects or not. Then we will be able to decide whether any adjustments need to be made.

C. Freeland:

Thank you.

I do think that effort to replace government investment (which is increasingly scarce) with private investment is one of the key issues that everybody is facing, and that I hope we will all have a chance to address here. Next, we are going to hear from Jim Turley. He is the CEO of Ernst & Young and brings a very global view that provides insight into what a lot of different companies, his clients, are doing in this space.

J. Turley:

Thank you, and I agree with many of the things Sergey said. I will try not to repeat them. I think on this issue, first, the opening video teed it up very well saying that the amount of liquid assets that are hung up in company balance sheets and so forth need to be released.

Yesterday there were sessions of the various B20 task forces. I think the Investment and Infrastructure Task Force made some very positive recommendations around this. One was to identify and remove restrictions on the free flow of capital and to reinforce cross-border investment. I think that kind of restrictions can come in the form of protectionist behaviour, either around trade or

around currency manipulation: there could be tax policies that restrict the free flow of cash and there could be an array of other damaging policies. I would add that we ought to identify and do things to enable the free flow of talent and the free flow of labour between places, so visa policies and other things could be very helpful in terms of encouraging more investment.

The second thing I would point out that would stimulate things would be to really help push forward private investment in infrastructure, public–private partnerships, and other ways to actually meet the clear need that exists all around the world for enhanced infrastructure spending. In many places, governments cannot afford to do it. We have got to get the private sector to find a way to have a good return on investment and actually make some of those investments.

The third idea that seems to be something that we ought to think about (and this came from the Finance Task Force that I was honoured to co-chair with Andrey Kostin) is to really take a hard look at the intersection of bank regulations today with what is a changing policy landscape around macroeconomic issues: policies such as tapering off, running of quantitative easing (QE) in various places, etc. While an awful lot of enhanced bank regulation was needed coming out of the financial crisis, we have to be very careful that that regulation does not disproportionately or unexpectedly impact lending to the SME sector and entrepreneurs, who are the people primarily building jobs and growth in economies. I would look very hard at the intersection of both the end of QE and the bank regulations and how they impact job growth.

C. Freeland:

Thank you very much, Jim. Now we will hear from Frédéric Sanchez. He is the CEO of Fives, and I hope he will give us a particularly, but not exclusively, European perspective on some of these issues.

F. Sanchez:

Thank you. First, I agree that if we want investment growth, we need to have more stability, less uncertainty, and more trust in government policies. We need the will from our governments to change the rules of the game. That is not the case nowadays. When you see that the flow of direct investment in 2013 and 2012 is below what it used to be in 2007, that is a measure of the big move we have to make. For that, I think we have to fight protectionism and I would be even more concrete than that, but I share James's views 100%. When it is so difficult to get a licence in some countries, when it is so difficult to invest because you need to put in a lot of equity (some countries have found that as a way to prevent outside investment in their countries), when it is so difficult to take risks because of the bureaucracy, you do not take the risk, and you wait and see. That uncertainty needs to be stopped by putting in place systems that are more stable and more simple.

On the tax side, if I may, I will speak about Europe and France. There is no reward in the tax system in France for taking risks. The only ones we reward are those who rent, who collect the rent and the benefits from rent. This is not acceptable. We have a big problem with youth unemployment, which is increasing in Europe dramatically: 50% of young people are unemployed in Spain. We need other ambitions besides feeling sorry for the older generation.

To invest, you need to be sure that IP will be clearly and well protected. IP is not well-protected everywhere, and this should be dealt with at the global level by our G20 leaders. Business should tell those G20 leaders that they need to put in place gains that are same for everybody.

For the last point, you said (and I totally agree) that for investment, you need capital. Capital demand is not provided for by banks anymore, or not at the level we need. In Europe, this is a big matter of concern because of the Basel III implementation. You are lucky, James, to come from a country which will not implement Basel III, but in Europe, because we want to do things like a good student without any imagination, we are implementing Basel III. As a consequence, as a business CEO of a company, I cannot find good financing anymore. Luckily they decided to open a

public market for SMEs. We will see if it works, but we have to find another way to finance investment growth.

C. Freeland:

Thank you for that passionate set of statements, and I am going to be interested to hear from others on whether US banks indeed are not implementing Basel III. I was on a panel yesterday in which Michael Corbat of Citigroup insisted he is implementing Basel III enthusiastically.

Now we are going to hear from my good, long-time friend and a long-time friend of Russia, David Lipton. David is the First Deputy Managing Director of the IMF right now. He is a person with extensive government experience and now international financial institution experience, and he has spent a few years as a banker himself. David, what is your perspective on all of this?

D. Lipton:

Thank you, Chrystia. The lack of investment is clearly a global phenomenon. I think the best way to approach the subject is to ask: what do investors need in order to invest? First, they need good projects; then they need finance and capital; then they need to be able to carry out the investment without too many impediments; then they need to be able to keep the proceeds. If you go back over those four points and see what stands in the way, you can see what is necessary.

There are plenty of good investments in the world, but we need a better, stronger, global economy with stronger demand growth so that people will invest in order to take account of and get in on the growing demand, and that is important. We need better macro policies in individual countries that are trying to foster an investment environment. Countries and companies need to be able to get finance and capital; Frederic just spoke about that subject. The G20 is putting a lot of energy into trying to think of ways to better channel the global pool of savings to long-run investment infrastructure and investment in productive capacity, mobilizing institutional investors, mobilizing sovereign wealth funds, etc.

You need to be able to carry out the investment, and that requires a regulatory environment that is supportive and not an impediment or restrictive. That is more of an issue in some places than others. Then, of course, you need to be able to keep the proceeds, which requires having a rule of law, having shareholders' rights, having a tax system that does not tax away all the gains, and IP protection – another very good point.

I think there is plenty of work for countries, for companies, and for the global community. Let me say a few words about how this applies to Russia. I think it is quite pertinent to Russia. Russia needs faster growth, but it is not going to get much faster growth by stimulating demand because there is not much slack in the economy. A little bit of stimulus might bring some growth in the short run, but it would undermine the long-run investment climate by once again leading to inflation pressures and exchange rate pressures that would be very unhelpful. There are plenty of good investments in Russia, but can people get financing? This banking system is not the best banking system for channelling money to good investments, so I think that thinking about the efficiency of the banking system and its structure and ownership is important.

Can you carry out investments in Russia? Clearly there is plenty of room for regulatory improvements, for deregulation, and for getting government out of the business of business. I think that would be important. In terms of keeping the proceeds of your investment, there is a need here for improvements in the rule of law and better tax systems, and in particular, support for minority shareholders' rights and the rights of other claimants. I think this agenda is one that is pertinent very broadly across the world, but certainly here in Russia.

C. Freeland:

Thank you very much, David. Now we will hear from Klaus Kleinfeld. Klaus is another long-time friend and student of what is going on here in Russia. In addition to his business activities, he is the leader of the US–Russia Business Council. He is

the CEO of Alcoa right now and had a long career at Siemens too, so I think he can give us great insight into what is happening in Russia and also around the world.

K. Kleinfeld:

Let us promptly start with the general frame of where the economy is going. When I look at the economy, I see that we really have three speeds if you look at the regional economies. On the one hand, we continue to see Asia, including China, growing very, very nicely. I sometimes smile when I hear depressive views, particularly issued by people that we really rarely see in China, telling us that Chinese growth is slowing down, but when you ask them what they mean by that, they say slowing to 7.5% – ignoring that simple mathematics actually tells you that 7.5% applied to an economy that is double the size of what it was when it was double digits is still, on an absolute basis, much, much higher. I continue to be optimistic on that. There are a lot of issues there, but there is strong growth there.

The US is kind of a second speed. Clearly it is in recovery. We are not talking about double digits but single digits. We talk proudly about 2%, but clearly it is a course of recovery. Then you see Europe, and frankly, all the doomsayers have been proven wrong. The doomsayers would say, “So far”, but having lived in Europe for a major part of my life, most people forget that it is the lifestyle in many European countries to muddle through.

That is my view of the broader picture. If you go to sectors, you can look at some of the industries we are in. I spent the earlier part of this week in Paris at the Paris Air Show. If you really want to get an optimistic view of the world, you go to the aerospace industry; after eight years of auto backlog, Boeing and Airbus are altogether unprecedented on this planet. The discussion that you have there is about when the next slot is available, so it is pretty amazing. At the same time, you have to be realistic and see that there are some industries and regions that are having a really hard time. But even in an industry that was very sluggish, such as the building and construction industry in the US, we see that there are signs of recovery. I think that is the frame that we see.

Then, on Russia, I agree with some points that Sergey and others made. The picture is more turbulent, unfortunately. Last year we said Russia was the shining star with 4–5% growth. It was fantastic. Everything was pointing in the right direction. I think at this time, we have to be a little bit moderate. Some of it is a factor of Russia being more integrated into the global economy. In the case when you see Europe as its largest trading partner, taking 60% of all Russia's exports (the last number I remember), it is almost impossible to be shielded from that with strong integration. The external factors like oil and gas are also going through somewhat turbulent times, so in a way, that explains why the growth rate has been ramped down. But there is still growth there.

Then, when you look at internal factors, those I find a little more concerning, particularly because I do not understand them at this point in time. You mentioned foreign direct investment; from the numbers I have seen, I am not sure what to make of it. Last year it seemed to be awash from what came in and what went out: USD 31 billion on the plus side. What concerns me is the last number I have seen here on the capital outflow for the year to date. In the first five months, I think it was USD 37 billion. I could not find a comparable number to this (I do not know whether that is available) but I find that concerning. I do not know what exactly that means.

When we look at things that we do see (and we have had many discussions about this already here at the forum), looking at the infrastructure, for instance, the infrastructure is a foundation of growth and we have to admit that there are areas of infrastructure that are behind. The loss of electricity prices here have reached a level that is not competitive. When you look at what causes this, there are a couple of factors. One factor is that if you lose 40% of the energy you have in transmission, how on earth are you going to be competitive? That is an issue. We could talk about roads and compare road building here in Russia to road building in China, and it falls way behind.

There are thousands of these things, and they are reflected in the infrastructure. The World Economic Forum publishes the Competitiveness Reports. The last one came out in September last year, and I found it very frustrating, to be honest,

because they ranked Russia as the second lowest on the infrastructure side, and the lowest was Brazil. Even India and South Africa came above them. I do not know exactly how they do it, and I found this to be more negative than what my direct experience is, but it is an indicator that something has to be done on that.

Chrystia, would you like me to talk about what the implications are for Russia and throw a couple of thoughts out there now?

C. Freeland:

Let us save that for the second round, Klaus. But that was really fascinating, and I have to say, I have always been a 'glass half full' person when it comes to Russia. Hearing those comments of concern, for me, is a real marker of some important issues here.

K. Kleinfeld:

Now that you have put it in perspective, first of all, I am an optimist; that has served me well in life, and I am not going to give that up easily. I continue to be very positive about a lot of things that are going on here. At the same time, I think, particularly when you are positive about a place, you have the obligation to also put your finger on some of the things that are not moving fast enough. I do not know how many more times we want to be on a panel here and talk about the infrastructure. I have been on too many already in my life, and it is not rocket science. A lot of things can be done very easily, and a lot of that has to be done on the regional side, not necessarily on the federal side. So that is more where I am coming from. I think there could be easy wins, but we have to do this.

C. Freeland:

Thank you, Klaus, and I am sure lots of aluminium will be necessary in big global infrastructure projects.

K. Kleinfeld:

I am so glad you brought that up!

C. Freeland:

Next, we are going to hear from Jan Hommen. He is the CEO of ING. He has steered his company through a particularly turbulent time for the world's banks, and I do want to point out a nice moment in his biography: he is a former CFO of Alcoa, so we have two generations of European Alcoa leadership here with us. Jan, please.

J. Hommen:

Let me make a few observations, some of which have already been mentioned. I agree with Klaus that we need to be careful that we are not getting too pessimistic here. First of all, if you look at investments since 2008, in many countries, they have declined, and in some countries they are 20% lower than they were in 2007. I think three factors have to be taken into account, and I will focus a little bit more on Europe than on the other parts of the world, but I think in many ways it is basically the same.

Firstly, I think we have seen weak demand from customers, not just because of the financial and economic circumstances, but also because of an ageing population. The population in Europe, in particular, but in many other parts of the world including Japan, is ageing fairly rapidly, and that means businesses are making lower returns and need to look for different markets where they can make better returns. They go to emerging markets more, and that is also an opportunity for Russia.

Secondly, I would say that the political and economic uncertainty in the Eurozone was very negative for business investments. Any time you have uncertainty in regulations, uncertainty on whether you can make a return, or are not totally sure what governments are doing, you have an issue, and the correlation is very high.

Thirdly, I would say that, especially when you look at Southern Europe, many companies in many different countries had difficulty getting access to capital and

funding and got it at costs that were less than acceptable. In particular, SME markets had difficulty.

Now let me make a few comments on the banks. Banks have really tried to strengthen their buffers since 2008, and I believe that many banks have succeeded in doing so. Maybe not everyone, but I would say the majority, especially in Europe, have done so. The banks are looking for certainty, as I said earlier. They need to know where they are, what the next capital framework will be, and there still is uncertainty and fragmentation in Europe. They used to have one big capital global market where you could move your liquidity and your capital freely. That is no longer true. Countries have become rather nationalistic, and certainly regulators have become quite protective. I think we need to make sure that we come to a conclusion on that, and do that ideally at an international level.

Structural reforms are required, and we can discuss that, but in many countries we need to research the labour laws and the energy policy that we have. It is necessary to really get the economy going again. We also have the ability with fiscal and monetary policy to stimulate the economy better than we have done, and I would think also here in a country like Russia. I think all that is needed is, again, that we create confidence with consumers as well as with the business community, but you also need to have what David was saying: good control over your products. But the most important thing is that you have customers at the end that are buying the products that you are making, and I think that is lacking at this point in time.

C. Freeland:

Thank you very much. Now we have a chance to hear from one of the leading businessmen, entrepreneurs, and innovators in a part of the world where, as we have heard, a lot of us are resting our hopes. Here is Kris Gopalakrishnan of Infosys, and you now have another role, also representing Indian business more broadly. Give us the Indian, and perhaps even the Asian, perspective on all of this.

K. Gopalakrishnan:

Thank you, Chrystia, and good afternoon to everyone. I want to bring a slightly different perspective because I do not want to repeat the points that have been made here already. I want to talk about the structure of the global economy today and how it provides us an opportunity. You talked about the opportunity that India provides in the large consumer base and growth of the economy. We talked about China, but India is growing also at 5% and is expected to grow at around 8–9% if we get our act together. Clearly there is an opportunity to leverage that high growth in certain economies.

I will go to the next point, which is that even a small business can today be a global business. Of course the large businesses are global businesses, but even a small business can be a global business because internet and technology allow you to tap into these markets today. Then we go to the challenges that are faced, and the theme I want to present is simplification. Here I mean simplification of tax laws, simplification of compliance, simplification of labour and movement of professionals – all of these things. We have not looked at how we can create a global framework, and this is a forum of G20 and B20. This is the forum that has to take up these issues, but we do not have an institutional framework.

I know the business leaders you have heard here talked about certain elements of these things. This is necessary not just to reduce the compliance costs, but is also necessary to reduce uncertainty. If you are a global business today, the uncertainty of doing business in different parts of the world is increasing because you do not know what compliance will look like in the future. This was, and is, a challenge in India, and I can understand a lot of the concerns multinationals have. Government is starting to address that, but we need a global framework to address it.

The last point I want to make is to extend this forward into the future. We also need to forecast and plan the jobs that will be created in the future in certain parts of the world and what jobs will be relevant in Russia 10 years from now, because it does take 10 years to change the skills of the population. It is not going to happen overnight. In India, for example, we have clearly identified that we have to re-skill

200 million people over the next 10 years. That is a significant task, and my guess would be that similar problems exist in every economy, developed or developing.

The planning is one aspect of it, but funding is a big challenge, because who is going to fund this? Is the individual going to fund it, is the private sector going to fund it, or is the public sector going to fund it? All these issues need to be resolved if we are to have a situation where a sufficient number of people are employed in the future. Technology and globalization is reducing the need for people to be employed. Clearly that trend will continue. We have to look at jobs for the future. We have to look at what economies will look like in the future and prepare a plan for training people. Thank you.

C. Freeland:

Thank you very much.

J. Hommen:

I have something to add to what Kris just said. He talked about tax policy and labour policy; others have talked about energy policy, compliance issues, health, financial services, regulation, and environmental issues. I am reminded of a story of a woman who was a great entrepreneur. I was talking to her a year or two ago, and I will never forget what she said. She said, "I see governments around the world juggling all these policy balls up in the air, and the one thing I know is that when this juggling stops and the ball hits the table in front of me, it is going to splatter on me. When I do not know what that splatter is going to look like, I stand back from making the most important investments I make every day, which is: do I hire 50 more people here and a 100 more people there?" Kris, you talked about this uncertainty, and I think that is an element to this as well.

C. Freeland:

I would like to give Sergey, our host, a chance to respond to some of these comments. We have been accusing governments of a number of sins here and of

splattering hard-working business people with their indecision. We have raised some big issues about uncertainty regarding the direction of the Russian economy. Since we are in this beautiful city of St. Petersburg, I would like to maybe devote the next round to talking about some of those specific issues that we addressed in Russian, and then let us go on to some of the other big issues we have raised.

S. Belyakov:

I would like to ask: firstly, are we talking about laws, conditions, institutions, or projects? For any investor, whether Russian or foreign, laws and institutions are critically important. But it is more important to know whether a certain project exists or not in order to make a decision to invest or not to invest, assuming you have the money. If I, as a representative of the government and as an official, am not able to tell investors that we are able to offer particular opportunities to invest money and to describe these opportunities in terms of specific projects, no one will come to Russia, no matter how ideal the legal framework might be. But there are also counterexamples: there is a country that has demonstrated rapid growth in recent years. It does not have a very good track record of actually protecting investors' rights, but we are witnessing an investment boom there. Investors are investing there because there are specific projects and the support for these projects goes beyond what is written in the laws.

Now let us talk about taxes. For us, this topic was once painful, but that is no longer the case. Both by our evaluation and according to experts and businesses operating here, the tax burden on the economy is low. The basic tax rates in Russia are extremely competitive. We have made certain decisions concerning the transition from a single social tax to a system of insurance payments. This has increased the burden on employers since they are the ones who collect the payments. But the overall tax burden is small. It is much more important to ensure that the tax payment procedure is simple. I would like to remind you that Russia has made breakthroughs over the past two years. We have risen from ninety-fourth to sixty-fourth place in the World Bank's Paying Taxes indicator. We have overtaken the US in this indicator.

And this, I hope, is not the only indicator for which we can catch up to and overtake the US.

Small and medium-sized businesses are a primary concern. We can offer some projects for large companies. I do not think that companies as large as RUSAL and Alcoa have any serious problems from the point of view of how business is organized in Russia, by which I mean our underdeveloped institutions. It is small and medium-sized businesses that primarily suffer as a result of this. We need to develop this organizational structure primarily for small and medium-sized businesses, and we need to create the necessary conditions for them. Several factors are critically important here. The first factor is a legislative base that enables businesses to be created very quickly. Starting a business is a risky activity, and one can go bankrupt and be responsible for all the risks associated with business activities. But after bankruptcy, it must be possible for people to go on to quickly start a new business. This opportunity does not yet exist here, but we are focused on it, and we are drafting our legislative initiatives on this basis.

The second factor is catastrophically high interest rates for loans. It is not possible to take loaned capital and use it to conduct normal business with an average rate of return (compared with international practice). This factor creates a chain of negative consequences. Consumers will view products made by small businesses, and particularly very small businesses, as being non-competitive. We are also focusing on this problem.

The third factor is developing competition. If we talk about the state of the investment climate in Russia, I am an optimist in terms of what we should do and the results that we want to achieve. But the assessment of the current state of affairs is not very optimistic, and competition in Russia, of course, is not well developed. This is a key factor in attracting investment. We need to do more than just attract investment to a single project. We need many such projects, and competition is a key factor in making this happen.

The final factor is privatization. This is a very topical issue at the moment. We announced that the government was altering its stake in the economy. We

announced that we were ready to let private business participate in publicly owned companies. In some of these companies, the government completely sold its interest, in others it ceased to have a controlling interest, while in some it remains the major shareholder. It is now very important for us to implement these projects and to sell these shares and assets to investors. This will increase the activity of these companies and stimulate the inflow of investor capital.

I would like to see more investors come to Russia because, in the end, investors will shape the legal and business climate here. They will create the conditions that suit them by presenting us with certain requirements that we cannot refuse. This is what has happened everywhere else, and it is also what will happen here.

So, we welcome investors, we will change the laws, we will present projects, and we will adapt our legislative institutions to suit the needs of investors.

C. Freeland:

I think that Klaus wanted to make some points about Russia too, and I would like to add to Sergey's point. I think the point about the country to which he alluded implicitly, China, perhaps not having the ideal legal framework and yet not struggling too much to attract investment is a good one. On the tax point, I was on a panel yesterday where a leading Russian banker said, "The age of the tax havens is over. International politics are directed against them", so he said everyone should bring their money to Russia because taxes are so low. It is maybe an entire country as a tax haven.

C. Freeland:

Sergey, did you want to add anything?

S. Belyakov:

The tax system is a very sensitive topic, and so comparisons must be accurate. To compare the tax systems of Russia and China would be like comparing apples and

oranges, since the obligations of the two governments are completely different. It would be better to compare Russia with Europe and the US.

K. Kleinfeld:

I would like to say something else on what Sergey just pointed out, because I have complained for years about the process of taxation here, when we had to deliver hundreds of thousands of copies. After these complaints, we were asked to become a model for online taxes. It is working now. Basically all people use this, and it works extremely well. There are really good examples, and we now want to go to the next step which they call horizontal taxation or horizontal auditing, so I think we are going to that next step as the next thing.

C. Freeland:

Do you want to tell us in one sentence what 'horizontal' means?

K. Kleinfeld:

Basically it is a much more efficient process of auditing, and I think it is just getting piloted here by the tax authorities so that basically makes the whole tax process, not just the administrative part but also the auditing part, a much more efficient process, and all of that is very strongly supported by modern technology as Kris mentioned. It is there, it has arrived, and is working; that is good news. And it came out of dialogue with the authorities.

Back to the bigger points here, what I see for Russia. The first thing (which we do not talk about anymore because human nature takes good things, digests them easily and moves on to the next negative thing), is that if you look one year back, there was Russia's WTO accession. After 18 years of hard work, we should not just pretend this was piece of cake, you know. It was a big deal, and the big deal also was that the moment this came onto the horizon, President Putin announced at that time that he wants OECD as a next step, another big, visionary thing. I think that is

great. We also heard the views on the expansion to overseas, and I think that is really important as the bigger vision of a framework.

Diversify. Sergey, you addressed that. I think this is exactly the right thing and still will be the right thing: diversify and privatize. It is clear what should be done. Some of these things have been done, and unfortunately some have been derailed. Some came because there was change in the political and economic landscape, but I think we are now seeing a more stable environment. I would very much encourage you to continue to do both.

Also on the diversification front, I continue to believe that one of the biggest assets Russia has is not just oil and gas but talent. That is what gets us all really excited. When I get asked, "What is your competitive advantage that you worry most about?" I continue to say, "Talent." Talent is sustainable and is the only sustainable competitive advantage you have in a time when information is flowing so fast. The talent landscape here in Russia has always been strong, and I think that is one of the reasons why people want to come here.

Obviously there are some things that are big issues if they do not get resolved. One is protection of IP rights, and for some industries it is a total killer. If we do not get clarity on that end, people will not invest; that is clear. Yesterday evening we had a discussion on people being excited about farming and the great opportunities here, and we got very close to what is holding things up there. One thing that is holding it up is a lack of clarity of land-ownership rights. I understand very much more today than yesterday why this is so complicated, but the fact that it is complicated has never held Russia back in solving something. I think we just have to live up to our own standards here.

Last but not least, I really believe that western companies can bring a lot of value to Russia still. When I just look at our two major plants here, it starts with practices: not only how to manufacture but also how to safely manufacture, environmental practices, training courses, and giving people opportunities to be part of the global talent base. One of our global businesses is now run out of Moscow, and I tell you it is because of the talent base. That was not a natural choice; we can pretty much

really put the global headquarters of anything anywhere because we have a global footprint, but the talent base was convincing. There is also an infrastructure base so that, from Moscow, you can run an international business very well. I leave it with that, Chrystia.

C. Freeland:

Thank you. Jan wants to make a comment, and then Jim.

J. Hommen:

We heard our Prime Minister speak yesterday on a big delegation from the Netherlands looking at opportunities. Dutch companies and Russian companies together can make a big difference in getting things started, on the one hand from a technological, environmental, and safety standpoint, as Klaus was mentioning. There is a lot of knowledge and technology they can transfer. At the same time, we can learn from Russia as well. There is a huge talent pool here.

We see opportunities, and not just in infrastructure. We had a dinner last night with Mr. Putin. There are a number of investors here in Russia, and infrastructure was one of the main topics, but I would think, in addition to that, when we look at the SME market here and diversifying the SME market, there is a huge potential here. The energy bases are too dominant in the economy, and if you can diversify the economy and spread the wealth a little more, I think you will get a broader participation in the economy, and as a result, a much better and more stable economy at the same time. That means wealth distribution. It also means, in our opinion, that you need to really improve the legal system further. You have made big steps: you are working on a financial centre in Moscow which I think will help get financing in a cheaper, more efficient way through capital markets and through the Russian economy. These are all good steps forward, but broadening the economy and adding to the infrastructure, I think, are the biggest steps.

C. Freeland:

Jim and then Frédéric.

J. Turley:

Something that is probably not well understood by everybody is that Russia listens very well to foreign investors. Many of us in the room have been part of the Foreign Investment Advisory Council. We meet during working group sessions all year long with members of the government. We sit with the Prime Minister every year and talk very candidly about the things that need to be addressed. In many things, be it some of the tax advances that Klaus talked about, administrative barrier reductions, customs and duties changes, or other things have come up over time, there is a great receptivity to listening to what is needed, and I think that is not seen in every emerging economy around the world. It is seen in China; China listens and learns very well. Russia also does, and I think that is a really positive thing for the country. Like you, Klaus, I still have great optimism for this country today, and that is one of the reasons.

C. Freeland:

Frédéric.

F. Sanchez:

I wanted to add that there is a big potential here to transform the existing plants, making them much more efficient and green. For a group like mine which is supplying capital goods, the opportunities are big, and we can work with the Russian people on a partnership basis. On Tuesday I was in Tatarstan visiting the KamAZ plant. They will invest massively to transform and rebuild the plants because they are not efficient at all. They built a huge plant without any efficiency, and they want to transform it because they could save a lot of money on the energy side. Really there is room here to convert that economy to be greener. There is big potential for all of us.

Coming back to Mr. Putin's meeting yesterday night, he was explaining that he is looking for financing and investment here, for capital from everywhere, from Korea, from China, from everywhere. Most of our clients are really facing capital demand constraints, even the biggest ones. The WTO it is a wonderful opportunity, but it puts some sectors like the steel sector under pressure. They would be under pressure because you opened your border, which is good at the end of the day, but there is lack of competitiveness because you spend a lot in energy, or because you do not have all the processes needed in the production sector. There is big room for improvement for all of us to be part of this conversion in the Russian economy. I am optimistic because there is will. Clearly there is will, but also a constraint: capital demand.

C. Freeland:

David, did you want to make a comment? Then I have many other issues I would love for us to discuss, but our time is running out, so we will hear David's comment, and then please get ready to ask your own questions.

D. Lipton:

I think, as many have said, that the investment situation here has been improving, but I think that it is also important to keep in mind the requirements to get this country from growth of a 3–3.5% to 5%. The country is going to need significantly more investment. You would have to raise the investment to GDP ratio from below 20% to 22–23%.

Foreign businesses have a good and improving relationship here in Russia and have learned how to be successful. What really is needed is for Russians to invest more, for Russian businesses to feel more comfortable putting more Russian money to work in investment. Russia needs to have a bigger economy, a more diverse economy, and a more technically-capable economy. I think across the spectrum of policies, there is still the need for improvement beyond what has been done if the

country seeks to achieve the goal President Putin has laid out of achieving 5% growth.

C. Freeland:

We are ready to take some questions. If people do not have questions, I have many more of my own. Please know that we have 15 minutes to take questions from the floor.

Given that we do not seem to have that enthusiasm at the moment, one area that I wanted to touch on is picking up on some comments made both by Kris and by Jan. Kris, from his perspective right at the centre of technological change, said something really important, which is that he sees, with the combined forces of the technology revolution and globalization, that even if you do have growth and investment, it may be jobless or even job-devouring growth. Jan made the point that ultimately to have growth, you need consumers, and to have consumers, you need people with jobs. Could we just spend a few minutes talking about that set of forces we are seeing in the world economy? I know many of you who lead businesses have brought your own particular companies to a stronger financial footing partly by cutting your workforce; you are part of this phenomenon that Kris was talking about. Kris, do you want to elaborate on that a bit?

K. Gopalakrishnan:

It is jobless when you look at existing operations and existing jobs, but new jobs are being created, so there is mention of sustainability. There are huge opportunities in terms of creating new storage technologies, looking at solar, looking at other alternate forms of energy and creating, for example, the cars of the future.

I will give an example: 3.5% of Indians own cars today, which is a very small percentage. It is a growing economy. The middle class is growing, and more people are going to want to own cars. Of course the per capita income is only USD 1,500, so they need cheap cars, but those cheap cars cannot be poor-quality cars. Those cheap cars cannot pollute. If that happens, we are looking at a huge disaster, not

just in India but in surrounding countries. So we need better energy efficient technology *and* cheap cars. That requires innovation. All that will create new jobs and new opportunities, so that is why I said we have to look at what the economy will look like, where the wealth will be created, where the jobs will be created, and prepare the population. If you do that, there will be enough jobs.

C. Freeland:

Frédéric, I think you seem moved to comment.

F. Sanchez:

I fully agree with what was said. In our group, I think the number of employees has grown, but they are not exactly where they used to be; they are not geographically in the same place. For example, we have doubled the number of employees of our group in the last 10 years, but we have more people in China, India, and Russia. We have less people in Europe, to be totally honest, because the market is not there for us. We grow where the market is and where investment is. As you said, there are different employees and different talents we are looking for.

Innovation and green economy is compatible with growth and numbers of employees. I absolutely do not share the view that automation is destroying employment. Automation destroys employment in some areas and creates new jobs in other areas, and we have to think globally.

J. Hommen:

I think it is that conversion that is hard. Moving from a manufacturing and industrial economy to a knowledge economy is not easy, and it is something that I think Russia is in the middle of. China is also in the early stages of that, but that transformation is not simple. You mentioned innovation, and I think having a real focus on entrepreneurship, a real focus on small and medium-sized enterprises as part of that, is incredibly important. In Russia, I think SMEs comprise about 20% of the economy. That is very low by global standards; in many places it is 50% or

above. I think that Russia, which has an enormous talent base, as Klaus mentioned, in stem subjects (science, technology, engineering, and mathematics) has to really convert that into embracing a knowledge economy. If you look at the 1 million Russian Jews in Israel who are driving an extraordinary tech-driven, knowledge-driven economy, that could happen right here as well.

C. Freeland:

Indeed, they are hoping that it will, in Skolkovo. Sergey, and then we have a brave questioner here, with a question from the floor.

S. Belyakov:

I see no conflict in what has been said. I totally agree that it is worth it to create the conditions for new jobs, and in particular jobs for knowledge workers. This is a very important task, because it is not enough simply to urge a company to optimize its operations and to be more efficient. This inevitably means job cuts, which results in an additional social burden on the state. We need to clearly understand the difference between public policy and the policies of companies. Companies have an interest in increased unemployment, but the government does not. Thus, the government must develop the right conditions and create new jobs in order for companies to be efficient and avoid costs.

I would like to comment a little on James' observation that we still do not have that many small businesses and people who work in such businesses. This is really true. We are witnessing fairly good growth, and we are optimistic about the future. It is just that there are still not that many businesses of this type. But do not forget what the Russian Federation is. Here we have people with an entrepreneurial spirit and initiative. They are willing to take risks and there is a healthy spirit of opportunism. That is what it takes to start a business. Why are there so few small business and people who want to start such enterprises? It is because historically we have never worked for ourselves. We must go through this period, and we will get past it. Right now, we have no one else we can rely on. This is partially the result of the state's

social policies, which have not always been effective. This means that Russian citizens do not really rely on the state. This actually has positive consequences. When a person thinks about how he can provide for himself, he needs to become more proactive. I believe that soon we will see many more people who work in small and medium-sized businesses.

C. Freeland:

We have a question from the floor. Then we will go to Klaus.

K. Pandey:

Thank you, my name is Kishan Pandey, and I am with the Russian Direct Investment Fund which was set up by the government: a USD 10 billion fund to attract foreign capital and also invest in the country. We started with the negative aspects about what is happening, and then I heard the positivity from Klaus, and I just wanted to highlight that we just announced a JV with GE. GE is going to invest with RDIF in the country. We just announced a USD 1 billion partnership to invest in the country.

Good things are happening. We just announced new investments in Russia. I just wanted to highlight how we can attract and incentivize people to invest in Russia. We have heard all your concerns. At the same time, we need to encourage people to take a slightly longer-term view. Human beings have an ability to start thinking only about what happened to us yesterday or in the last two months, and we forecast based on that. We should encourage people to think a little longer term. People in the room now are living much better lives than the richest person in the world was living 100 years ago, so we should encourage these business leaders to take longer to move.

C. Freeland:

Klaus, do you want to think about the long term for a moment?

K. Kleinfeld:

I agree with you. Chrystia, on your earlier point, first of all; I think that is the crucial question and it deserves an extra panel. I always feel with technology what Kris just broadly touched. I have exciting moments and I have horrified moments. I think it is not yet fully understood what the implications are, but we have not yet talked about the things that excite me most on the technology front.

Yesterday when we had a meeting with President Putin, at the very beginning, he said, "In the end, it is clear that education is the foundation", because that is the enabler of everything, and I fully agree with that. If you agree talent is the sustainable competitive advantage, then education is the foundation. In the past whenever we talked about education, we immediately said great education will only be available for a very few. The most exciting thing I see through technology is that that paradigm is dead, because what we see now is the biggest positive revolution of mankind. It is really just around the corner that excellent education can be delivered almost for free in a very personalized fashion. It is now proven; it is not foolish anymore, and I think the speed of revolution that I see there has a gigantic implication, more so for emerging countries and countries with a vast landscape like Russia. That is one discussion we have not had here before. I am talking about MOOCs, about online education. I think that is an area where Russia could massively benefit, and I am excited about that.

On the negative side I could also go on. You were right when you said before that we are creating jobs somewhere else. That is not solving the societal problem, because if you create jobs in China, you do not have an answer for somebody who is living next to you. You have to have an answer because societies depend on being stable, and if you do not give people jobs, as David said before, there is 50% youth unemployment in Spain and Greece. That is a deadly number, and over time it is going to kill society. We need to develop an answer to that.

From the journalistic side, Chrystia mentioned that the association very often is, "Oh, you do it because you capitalists want to bring costs down." I have to tell you, the main reason for the decisions we make is unfortunately not the cost aspect

anymore; it is the quality of the delivery, because we are reaching levels where automation is necessary to get the quality of work that is needed for the next level of innovation. Human skills are just not sufficient anymore to get that. That is the reality in many businesses, so unfortunately the answer is much more complicated. Then, on the other hand, we ignore a whole area of society. We have ageing populations in almost all societies, west and east. We do not have a discussion on how we should work with these ageing societies. The healthcare systems require a lot more human touch, and we pretend that there is no innovation on that, and we try to take out human touch where we need to bring in human touch, in my view. I think we need to understand this phenomenon much better.

C. Freeland:

Klaus, I will be sure to let your shareholders know that costs are not really a key issue in your running of Alcoa; only teasing! Our audience has suddenly become very energetic when we have only two minutes left, so we have two questions. We will take them, and then we will have to leave it there.

M. Thomas:

Chrystia and gentlemen, thank you so much for your comments. My name is Matthew Thomas. I am executive director of the InterSector Project. We do research on leadership that allows people to collaborate between business, government, and the non-profit sectors. Kris, in your comments on education, you laid out the problem very well. Growth will come from demand, from consumers. Consumers with no jobs that are in demand will not have the money to be those consumers and create the demand. The problem is how and who. How do we actually execute the plan you outlined 10 years down the road, creating skills for the 200 million Indians and the youth elsewhere around the world? How are we going to do that, and who will do that? What role does business play and what role does the public sector play in creating the kind of partnerships and education we need to do exactly as you suggest? Just as a quick follow up: Klaus, you mentioned so many other issues.

Healthcare was one which also requires cross-sector collaboration. Any thoughts on that would be appreciated.

C. Freeland:

All right, and our last question here.

From the audience:

Good morning. I am the Chair of the European club at Harvard University, and I was representing the European Union delegation at the Y20 Summit, so the summit of the G20 for young people.

Thanks a lot for mentioning the issue of youth unemployment in Europe. I think it is a really a ticking bomb in our society. To jump in on a point that you were mentioning, this issue of trust between business and government: I do believe that trust is a relationship that goes two ways. I do agree that there are some issues in the way government can give guarantees to business, but there are also guarantees that should be given by business to government, especially knowing that capital has the extreme advantage of being mobile, but when you talk about young people being unemployed, those people are far less mobile than capitalists. I was wondering if you, as senior leaders in major businesses and investment firms, have innovative ideas about how to re-shape this trust and this two-directional relationship between business and government?

C. Freeland:

Those are three really interesting and big questions that we have just been asked. Our time is running out, and we are going to go in the opposite order of the beginning. I will ask each person to speak just for one minute or so in response. You can address the questions directly, or if you have a brilliant final solution to this problem of unlocking investment to accelerate growth that you have hidden from us, you can share that. Kris, could you please start? There was a question directed to you on how we should do what you said we need to do.

K. Gopalakrishnan:

It has to be though public–private partnership. The task is significant. There are 200 million people who need to become skilled and jobs to be created. It will also be using technology, because you have to do it at costs that are affordable. You have to combine technology with public–private partnership. Interestingly, the IT industry has created 2.5 million jobs in the last 20 years, all new, not depending on the education system, so there is model there that can be used.

The last point I want to make is I am optimistic because these issues are being discussed and change is happening, so I strongly believe that we will figure out the answers and the solutions, and we will continue to develop further.

C. Freeland:

Jan, final thoughts.

J. Hommen:

Trust: you lose it quickly and you gain it very slowly, so the only way to do it is to really open up, have the dialogue, talk to each other, and create the partnership that is required between the private sector and the public sector, governments, universities, and institutions. I think that is really necessary.

Secondly, consumers and jobs: they go hand-in-hand of course, and the interesting thing is that most of the jobs created in the world are by smaller companies, not by big companies. The smaller companies are the key to success, and that is why I think SMEs and funding SMEs are so critical. If you look at funding, especially in Europe, it is too much done by banks and not enough by the markets, and I think we need to go to the markets more than we have done. That is why we need access to funding for a broader base of companies than we have today so banks can do what they need, which is making working capital available.

Healthcare I will leave for Klaus. I have some ideas on healthcare, but there is one comment I think we are forgetting. The ageing population is also an opportunity,

because there is succession planning. It requires that you have mobility of labour and that governments are willing to have policies of immigration that are really meaningful and that are directed to the jobs they need in their countries. Mobility of labour requires restructuring of labour laws, etc.

C. Freeland:

All right, Klaus, solve our healthcare problems in 60 seconds.

K. Kleinfeld:

Health and elder care are job generators. We just have to do it in a smart way, and I agree with everything Jan said on this trust aspect. I think that is a highly-critical issue, and there are thousands of answers on how you do that. One thing that was said before by Jan is that we have to have a dialogue. Dialogue is particularly important because there is a mismatch also of understanding of many young people about what they should study and what the real needs are in business. How on earth are you going to learn that if there is no dialogue?

The dialogue can happen in many forms and one of the very good forms that is easy to apply is internships. We are very strong proponents of internships and offer a lot of internships inside the company. We basically switched a year and half ago to recruiting only through internships. I think that is very helpful also for somebody who joins us, sees the company, and understands what is needed. Even if you do not get a job offer, the thing that you have learned is what is really required. I think that is one thing to do.

C. Freeland:

Klaus, are these paid internships?

K. Kleinfeld:

Yes, they are always paid.

C. Freeland:

So go to the Alcoa website. That is one option; I am sure they advertise there.
David.

D. Lipton:

Let me use my 60 seconds on jobs and growth. There are really three things going on in the world and sometimes we confuse them. There is globalization, which is spreading and creating jobs in places where people before really were not part of the formal economy. There is the technological change: technologies that are replacing people or technologies that are required at such precision that they can only be done by machines. Then there is the problem of inadequate demand. That is a new problem. It has come as a result of this crisis. It is mostly in the United States and Europe.

We have had periods in the past in which there has been globalization and there have been labour-saving technological change and we have not seen high unemployment. The problem of inadequate demand has to be solved as a macroeconomic problem. Then we will get back to the question not of how many jobs there are but of who is doing what, whether we want to direct people one way or another, towards healthcare or towards elder care, whether they are high-paying jobs or low-paying jobs and what kind of education and skillset is embodied in the job. We should not attribute the youth unemployment in Spain or the remaining high unemployment in the United States to the structural changes in the global economy. We are not going to stop globalization, and we are surely not going to march back technological change, so we do have to deal with the macroeconomic problems that exist.

C. Freeland:

Thanks very much, David. I had been hoping that we would have a chance to talk about macroeconomic issues and government roles in all of this, so thanks for at least bringing up that really important issue. Frédéric.

F. Sanchez:

To answer your question on how to build trust between governments and business leaders, I think really that the B20 is a wonderful idea. It makes us work on recommendations, joining all our forces on the business side from India, from China, from Russia, from everywhere. Twenty business organizations join forces to make recommendations, and after that, we are presenting those recommendations to our governments.

What we should do, perhaps, is go further: not only making recommendations but taking on some commitments. There are areas where it is simple. We could make some commitments regarding youth employment. We should and need to make some commitments on fighting corruption. That is not just something where we have to wait for new laws, etc. We should say, as leaders, we will fight corruption, because corruption needs us too. I fully agree that the B20 is a wonderful occasion, and as we worked in Mexico and France, we had all the governments joining our meetings and exchanging wonderful ideas.

Now, on a more ironic note, I would say that if you want to accelerate investment in the world, we should change our accounting principles and I give this to Jan, because accounting principles and the mathematics market is his purview. I am sorry, Jim.

C. Freeland:

Now we are getting to the really interesting part just as we have to conclude!

J. Turley:

I am not going to solve accounting principles in 60 seconds. What I will solve is the trust issue. It is all about engagement and transparency. The first time I came to Russia was in the year 2000. Like most people who had never been here, if I am really honest, I probably did not trust what I was coming into, but by engaging in a very deep way on multiple visits every year, the trust built on both sides. By being

transparent about things we need to do better and things the government needs to do better, that is how you build trust.

I also have seen this in our profession, not touching on accounting standards, but as our profession went from being self-regulated to being independently regulated almost all around the world after the Enron crisis in 2001–2002, the truth is, in the first days, you really did not trust your regulator. But if you sit down, engage, and are transparent, trust builds.

C. Freeland:

Jim, your regulator may have not trusted you guys too much, either.

Sergey, you have the closing statement. Please, go ahead.

S. Belyakov:

I would like to respond to the question about trust, but I will begin by replying to James: both the government and the private sector must work better. First of all, the government should do more. The kinds of problems that will arise if we do not do our work well are more serious than those that arise when the private sector fails. If a business does not work well, then the company goes bankrupt. Shareholders lose their money and employees lose their jobs. Poor government performance means problems for business and social problems. Quality of life drops to an unacceptably low level, which entails numerous other negative consequences. As for trust, it is certainly a key factor. However, I would be very careful when speaking about the responsibility of business to the government. A very extraordinary thing happens with governments: as soon as you create even the shortest list of obligations a business may have to the government, this list tends to expand indefinitely, as we have seen. Here in the audience we have a representative of a company who, I very much regret to say, is experiencing problems with one of the agencies of the Russian government that believes it can expand the list of requirements his company must comply with.

The responsibility of the government is to create comfortable and favourable conditions for business. The responsibility of business is to pay taxes based on income generated by its operations and to create not just more jobs, but higher quality ones too. And that should be it.

C. Freeland

I think that is a duly optimistic note on which to conclude. Sergey, I think all of your business partners will be demanding such performance from the Russian government in their future encounters, and I would just like to thank the panellists for a really wide-ranging and insightful conversation. Thank you very much, gentlemen.