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EMERGING MARKETS SHAPING A NEW GLOBAL ECONOMY

Securing Global Growth

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With the Euro and US dollar facing long-term structural debt issues and potential inflationary pressures, the impetus to create alternative reserve currencies is increasing. But new reserve systems are just one of several major policy initiatives under development from major emerging economic players.

Moderator:

Dr. Ngozi Okonjo-Iweala, Managing Director, World Bank Group

Panelists:

Norman T.L. Chan, Chief Executive, Hong Kong Monetary Authority

Luciano Coutinho, President, Brazilian Development Bank (BNDES)

Vladimir Dmitriev, Chairman, Bank for Development and Foreign Economic Affairs (Vnesheconombank) State Corporation

Kairat Kelimbetov, Minister of Economic Development and Trade of the Republic of Kazakhstan

Peter Mandelson, Chairman, Global Counsel; Senior Adviser, Lazard Ltd; Member of the House of Lords, European Commissioner for Trade (2004-2008)

Vladislav Soloviev, First Deputy Chief Executive Officer, UC RUSAL

Alexei Ulyukaev, First Deputy Chairman, Central Bank of Russia

Di Weiping, Chief Investment Officer, China Development Bank Corporation

Front row participants:

Nadeem Panjetan, Head of Human Resources Management Group, Export Import Bank of India

Anton Rakhmanov, Managing Director, Troika Dialog Investment Company CJSC

N. Okonjo-Iweala:

Good afternoon, everyone. Thanks for coming this afternoon to this session, which is 'Emerging Markets Shaping A New Global Economy'. We have a very distinguished panel with us today, and a very large panel. So we are going to have to exercise a bit of discipline if we are to finish and get to the audience for some questions. But let me start by introducing the panel and then perhaps frame the debate a little bit before I call on panel members to participate and give their views.

I will start from my far right.

We have Mr. Di Weiping, who is the Chief Investment Officer of the China Development Bank Corporation and Chief Executive of China Development Bank Corporation.

Next, we have Mr. Luciano Coutinho, who is President of the Brazilian Economic and Social Development Bank (BNDES).

Next to him, we have Mr. Alexey Ulyukaev, who is the First Deputy Chairman of the Central Bank of Russia.

Next to him is Mr. Norman Chan. Norman Chan is Chief Executive of the Hong Kong Monetary Authority.

Next, to my left, is Mr. Vladimir Dmitriev, who is Chairman of VEB Bank, as everybody popularly calls it.

Next to him is Mr. Kairat Kelimbetov, Minister of Economic Development and Trade of the Republic of Kazakhstan.

Next to him is Lord Mandelson, Peter Mandelson, who is Chairman of Global Counsel LLP.

I think last but not least is Mr. Vladislav Soloviev, who is First Deputy CEO of UC RUSAL here in Russia. So a very distinguished panel indeed.

Now we are here to talk today about how emerging markets are shaping the new global economy. So let me just say a few words. People are talking about how important the contributions of emerging markets are to global growth. The point is that emerging markets are now responsible for half of global growth.

This is a very important new development. They are responsible for half of global growth. They have been emerging from the great recession that we have been in, faster than the developed economies.

We are expecting the emerging markets to grow or expand on average at about 6% each year in the next few years, which is almost twice as much as the expected growth rates of the developed countries. At the same time, for emerging market or developing countries, international trade flows have increased from 30% in 1995 to 45% in 2010. So they are also increasingly accounting for almost half of global trade.

In the corporate area, the emerging market share of cross-border acquisitions has doubled from under 10% in the 1990s to over 20% in the past two years. Emerging markets are also proving to be a better risk than the advanced economies, as we have seen from what is happening in Europe and from what we have seen in the direction of flows of capital to these markets.

But in other areas, emerging markets are also doing extremely well. When you look at the area of skills and reading—stepping away now from the economy a bit to look at the area of skills and reading—we find that many emerging markets are now in the top five in terms of improvements in reading skills for their children and their students.

At least between 2000 and 2009, we have got countries like Peru, Chile, Albania, and Indonesia that are performing very well. Latvia, Poland, and Brazil are at the top of the PISA survey.

We get emerging markets not just doing well in the economy, in trade, but also in terms of performance in their education systems. In innovation, emerging markets are also now—I do not know whether they have emerged, some of them already have, whether we can really call them emerging—because they are also experiencing increasing breakthroughs in terms of innovation.

So this is just to talk about a few areas. In terms of investments, FDI, increasingly we find that emerging markets are now the primary investors in other emerging markets and in low-income countries.

So South-South investments have become a very important part of the equation. But all this is not without risk. It is not that everything is now wonderful in these countries. I think strong challenges remain. Let us also remember that 70% of the world's poor live in these emerging markets, people who are living on less than USD 2 a day, and that great infrastructure challenges confront the continued and sustained growth of the emerging markets. So these are framing the problem. The opportunities for these markets, for the emerging markets, are considerable, but they also face challenges in different areas.

Taking that as a frame, I now want to turn to our panel, and I would like us to discuss three main themes.

The first is, what is this new role that emerging markets are taking? What does it mean when we say that they are becoming very important? Let us substantiate it a bit more. Both in terms of the economic growth, but also in terms of their performance in specific markets, including commodities markets. Is there a new role for direct trade and financial cooperation between these emerging markets? Is there a new role for currencies of these emerging markets?

Second, what is the pattern? Is the pattern of growth that we have seen set to continue? Is this sustainable and what are the challenges that lie in and confront this pattern of growth?

Third, what role are emerging markets expected to play in global governance? Are they really stepping up to their presumed new role and assuming more responsibility in global governance? Should they? And what type of role should we look to for them?

So these are three key questions that I would like to address to our panellists, and then I would turn to the audience. You have five minutes each to respond to the issues that I have raised. Let me turn first and foremost to the Chairman of VEB Bank, Mr. Dmitriev. Your comments please.

V. Dmitriev:

Thank you very much, distinguished audience. It is really a great pleasure to be with you and to share my view on the issues which we are focused on right now.

I think we are living in exactly that time when the issues addressed are co-issues for understanding the role of emerging countries and emerging markets, not only in the economy but in global politics. We have here some of the countries represented as emerging market countries, but which are already big players in the world economy and world politics.

In addition to those figures which were mentioned, the BRIC countries alone account for half of the hard currency reserves of the global market. Of USD 6 trillion, half is represented by just the BRIC countries. Of course, other figures also allow us to understand that we, emerging market countries, are global players in this global world. And the issues addressed characterize the importance of taking into account the role, potential, and seriousness of emerging market countries in the economy and global politics.

Now to a tough issue which was mentioned—currencies. We have already started to reconsider the approach towards our local currencies as the currencies of regional settlements. The potential is here to make these currencies investment instruments, or currencies which provide investment opportunities in our countries.

Just to mention, the Shanghai Cooperation Organization and the BRIC countries, where we have set up a special inter-banking group, are considering opportunities for balancing our settlements and coming away from just hard currencies like dollars and euros, to local currencies. At the end of last year, on the Moscow Stock Exchange, we started trading yuan.

We have started bilateral trade with China in roubles and yuan and there is a great scope of opportunities with other countries, both from the Shanghai Cooperation Organization and BRICs.

Just today, we signed an inter-banking agreement with the development banks of the BRIC countries, one of the ideas of which is to consider opportunities for local currencies to be the currencies of settlements and investments.

Considering global governance, I think that multilateral organizations like BRIC, like the Shanghai Cooperation Organization, are obvious examples of those sorts of unions, the sort of organizations that have the opportunity to provide a balance in global politics.

Obviously, these countries and those organizations which are set up by them are proof that we are global players, and we are a part—a very serious and important part—of the global world, both from the economic and the political points of view. Thank you.

N. Okonjo-Iweala:

Thank you very much. You mentioned the fact that these countries are increasingly important as reserve currencies, and the new agreement between development banks. So let me just call on two people. First, Norman Chan from the Hong Kong Monetary Authority.

What is your comment on this new agreement for settlement in local currencies and what are the prospects for cross-border settlement of current account transactions in renminbi, for example? China has been talking about this but it is still a very small part, 3% of annual trade in goods for China. Would you care to comment on that?

N.T.L. Chan:

Yes, thank you. I just want to make a few brief comments. First of all, a general comment. You talk about this unevenness in growth momentum in the next few years. This unevenness has been amplified by the latest global financial crisis. I think using the IMF's latest forecast, by the year 2015, four years from now, 50% of global growth will come from BRIC countries alone.

When you add the other emerging market economies, the contribution to global growth will be around 60%, if not more. But you also mentioned that even among the emerging market economies, the growth is uneven.

There are fast-growing economies like Russia, China, and Brazil. But there could be other emerging market economies, low-income countries are not growing that fast. But it seems to me that no matter how you look at it, the only practical way for the emerging market economies and low-income countries to share the growth story of those fast-growing countries like Brazil, China, and Russia, is to do it through the trade and investment channels. I cannot see any other alternatives to this.

Now the question is, how do you promote trade among emerging market economies? How do you promote investment flows? Now let me quote you some numbers which are highly relevant. I heard President Hu Jintao mention that, by the year 2015, China-Russia trade will grow from its present USD 58 billion a year to around USD 150 billion, and then by 2020 to USD 200 billion. To me, I have no doubt this target can be met, because so many things that Russia produces can be sold to China and vice versa.

Now this is very, very positive. But when I look at the FDI numbers between Russia and China, it gives you a different picture. Let me quote you a number. In 2003, the total amount of cross-border FDI is USD 85 million and in 2009 it was USD 318 million.

This is a huge contrast to the phenomenal growth in bilateral trade. I think something is missing. It is not my intention to go into the reasons. But what I am trying to do is point out that from this very low base, there is huge headroom for bilateral investment flows to grow.

But then it requires a lot of promotion work. One of the missing links, or bottlenecks, to me is that in the past, trade and investment between Russia and China for example, were settled mainly in USD, hard currencies. RMB—renminbi—was not allowed to be used. The rouble was rarely used.

But I think that things have changed, because one should never underestimate the benefits that the use of domestic currencies, rather than a third country's currency, will bring about in facilitating trade and investments.

When you talk about investment, you talk about a project which maybe takes 5 years, 10 years, or even more, to bear fruit. Then to invest using a third currency requires very complicated hedging arrangements, sometimes very costly arrangements.

If you consider using one of the two domestic currencies and you can match investment and receivables, then it would take away a huge amount of risk and also the energy required in doing currency switching and hedging. So I see that one of the bottlenecks that the authorities must try very hard to overcome will be this currency issue. I think the Chairman of VEB just mentioned this task force being formed, and I think this is a good way forward.

In terms of China's legalization in the use of RMB, they started not long ago, it was only in July 2009, there was a new policy approved for the use of renminbi for cross-border trade. Last year, the whole year, out of the USD 3 trillion of total trade of China, around 2.5% was settled in RMB; from 0 to 2.5%, not bad at all.

For the first quarter of this year, the ratio jumped to 7%. Still a very low base and there is a lot more headroom to grow. This tells you that once you provide the necessary policy framework and the necessary financial infrastructure, the use of domestic currencies can take place very fast and would bring about a huge amount of benefits for the countries involved. I think these are the main comments. Thank you.

N. Okonjo-Iweala:

Thank you very much. Let me just turn to Mr. Coutinho to follow up on that. You are the president of a very large player, a very large development bank in Brazil. We want to know if you are one of the signatories to this agreement and what you think of that. But before that, Brazil is seen as a real force at the head of emerging markets.

Could you comment on this issue of how you see the general rule of emerging markets and do you see this growth, and the continued pace, as sustainable? In which ways, including this settlement and trade in local currencies, do you see that happening? How do you see Brazilian firms investing in other countries?

L. Coutinho:

Well, first let me say how happy I am to be participating, I am thankful for the invitation. What we see in perspective is that developed economies are facing the prospect of very low growth for a long time in very complicated fiscal trajectories; lack of coordination and lack of initiatives, and maybe inadequate proposals for tackling most of those issues.

On the other hand, emerging or developing economies were the major engines of recovery and growth. If it were not for the force of developing economies after the 2008 crisis, the global economy would have entered a much deeper recession.

So we developing economies are in fact the major drivers of growth now and in the future.

Now, the question is that this growth is a very imbalanced kind of growth and maybe developing economies have accelerated in order to help recovery. But as the imbalances are deepening and inflationary pressures are threatening, we have to moderate and, on the other hand, develop the world. It has to cope with its difficulties in order to have a better balance in global growth. But the outlook is that developing economies will keep leading growth in the future.

Substantially, developing economies will be able to grow by more than 6% in coming years and they will in fact reshape the global economic geography, and this calls for a number of changes. Of course, we have our own challenges of improving investments in infrastructure, in facing our education, health, and innovation challenges on our own. We have to raise our savings ratios. We have to invest more. We have to take care of ourselves.

But on the other hand, we need and it is not just a simple demand, it is a necessity, to participate in the multilateral decision-making process—not just the G20, United Nations, World Bank, WTO, and IMF. Because of the strengths of our presence and also because of the challenge of how to redesign the international monetary system. Because we have now major reserve currencies that are under the threat of debasing themselves by very complicated fiscal trajectories in the future.

So we need to think about the new basket of reserve currencies in order to create more security and more stability for the accumulation of reserves. So we have a number of issues and it is better that those issues be resolved through negotiation, through cooperation, rather than through disruption.

So the question is that of the presence of emerging economies, and particularly BRIC economies, in global governance. It is not just a matter of an option. I think it is an imperative. It is a historic necessity and we are far behind the curve on those matters.

N. Okonjo-Iweala:

Thank you. Let me now turn to a private-sector person, too. We have heard from some of the banks and the development banks. I would like to ask Mr. Vladislav Soloviev on my left. Your company has operations across five continents.

What are the challenges that a company like UC RUSAL faces, in investing from one emerging market to the other? And do you believe in this momentum, that Mr. Coutinho and others have referred to, in that it is inevitable for emerging markets to take over?

V. Soloviev:

Thank you. First of all, if we look at the numbers of emerging markets and how important they are in the world economy, it is not only the USD six trillion of reserves. It is 50% of global GDP. The BRIC countries alone already represent 50% of global GDP, and all of that together is higher than the GDP of the EU or of the US.

At the same time, an important thing—if we look at the growth rate of the GDP, it was at least 10% or 11% for China and India last year, and this year it is a little bit less. It is 9%, but it is still at least three times higher than any growth rate of a developed country.

At the same time, if we look at the commodity cycles and then our business, we can see a 9% GDP growth rate for China. At the same time, China has an 11% rate in commodity consumption for last year, and I hope this level is the same for this year. In just the last three years, China has doubled its iron ore consumption.

All of that brings us to the understanding that the BRIC countries and developing countries are more and more becoming the global consumer for basic materials. At the same time, they are becoming the global producer for consumer goods. And I think this situation will develop more and more in the future.

What is the pattern? Why is this happening? My view is that the main driver for that is the industrialization of the country. The level of poverty in these countries is very high. It is still quite high. It is 26% in Brazil, it is 50% in South Africa, and 20% in India.

All of that brings the countries to move their rural population to the cities, which is what China is doing now. And for them alone, today they have 27% of the rural population living in industrial areas. By 2020, we think that 65% or even 70% of the rural population will live in the big cities.

What does it mean for commodities? What does it mean for basic materials? It means that consumption will grow.

At the same time, the ability to produce this kind of commodities within these countries is becoming more and more difficult because of lack of resources, because of lack of energy. And we have seen in China that the power shortage this summer started two months earlier than last summer. That is why all of these countries are now looking at the possibility of increasing their presence in Africa, in some other countries where they can find resources.

And all of that gives us unique opportunities to export our products to China, to India, to other developing countries. That is my personal view. Sooner or later, China will switch in terms of aluminium, switch from their balance or export to net import. This will happen this year, or next year for sure, because it is inevitable.

All of that definitely brings us to the understanding of what the kind of currency situation and the currency formation should be and how the currency presence of this country should be redesigning the world. I absolutely agree that sooner or later, the world currency system should be redesigned.

And in my view, the level of presence and level of influence of those countries at the IMF should sooner or later be increased. Now they can vote only 10% at the IMF, compared with the US and UK, who vote 50%. I think this level of influence should be increased.

At the same time, I think another important issue is the infrastructural thing. The top stock exchanges are currently only in developed countries. But in my view, the influence of Chinese stock exchanges, like the Hong Kong Stock Exchange and the Shanghai Stock Exchange, should be increased in the future. And they will provide good competition for the developed countries. This will also happen.

Again, one of the questions you asked was, how sustainable is this growth? My view is it is sustainable, because we still have a huge gap between the rural and the urban populations of China, which is why I definitely think that this situation will continue and more people will move from the suburbs, from the rural areas, to the cities. And it all drives the commodity cycle again.

And our next thought is India. Will India help drive the world forward? That is the main question now, and if it does, then how quickly will it happen?

N. Okonjo-Iweala:

Thank you very much. Let me turn to a slightly different nuance of this question of emerging markets. And I would like to turn to Mr. Di Weiping, and next, to Mr. Alexey Ulyukaev, for this next set of questions.

So the emerging markets are coming out of the crisis relatively stronger, as we said, compared to the developed markets. And emerging markets are already back to the good trajectory they were on before the crisis, while the developed countries continue to have unused capacities.

This means a very different policy mix between emerging markets and developed countries. Where do you see the progress and challenges in international policy coordination as emerging markets take on this new role in the global economy? How do you see this policy mix? Mr. Weiping, how does it apply to China in particular?

Di Weiping:

Thank you, Madam Moderator.

I was told by the meeting organizer that they had the translation set up for speaking Chinese. So before I really comment on the topic, I would like to ask those who feel the need to put on earphones, because I am going to make my comments in Chinese, my native language. Thank you. So I will give you a few seconds to put on your earphones.

It is my honour and privilege to take part in this discussion on the topic of the emerging markets. I would like to share my standpoint as to the economic development of these countries. We have just mentioned the role of those countries in the global context. And I would like to give you a very good example that over the past few years, we discussed the capabilities of BRIC countries and ways of cooperation with them. And so I would like to present a very good example on how we cooperate with those developing and developed markets. That is the new economic context of our development. And the emerging countries' role is going to grow as we go further. Back in 2010, the contribution of BRIC countries amounted to 50% of the economic growth rate. That share is growing gradually in the global context. And the reform of international financial organizations is under way; the solution of global challenges emphasizes the role of BRIC countries.

And in these conditions, the cooperation within BRIC countries offers new facets and new opportunities. We are cooperating more and more across various formats. And it presents good opportunities for both emerging and developed countries, mature economies. First of all, let me emphasize that the role of BRIC countries was 7% ten years ago. Now it is 15%, while our currency reserves constitute about 75% of the global level. And cooperation in the financial sphere is going to become deeper.

Let me emphasize that the cooperation between our countries in the banking sphere is going to be advanced. We had a meeting in April between the BRIC countries and we signed a special document on cooperation at the interbank level. And today, we signed a new agreement on the creation of the interbank community of BRIC countries in the city of Sanya, Hainan, and it was a result of the third summit of BRIC countries, which was of paramount importance. We would like to express our viewpoint as to the follow-up development of the emerging markets. We are nowadays encountering the problem of the volatility of key currencies. Inflation and risk are increasing at the same time. In order to make our economies more healthy and sustainable, we have to reinforce our cooperation at the interbanking level.

Further on, BRIC countries should also strengthen our relations in the area of transformation of the global foreign currency system and its further improvement. We also need to contribute to the reform of the global financial organizations on a multilateral level so that the voices of these countries are better heard. We also need to also streamline some practical collaboration and provide more services so as to advance the real-sector development of both countries. The emerging markets have to be more keen on infrastructural development, as well as energy-resource and mineral-source development.

We as banks have to offer some new facilities, some new tools and instruments for these sectors of development and also advance ‘green’ economics and improve the capabilities of the emerging markets for self-sufficient development, introducing innovation into the financial sphere, and, further on, give a dynamic impetus to the shaping of trends concerning settlements in national currencies. And the emerging markets progress to a new level of the global economy.

For that very purpose we have to improve our financial cooperation among BRIC countries. And I do hope that such a model of cooperation of BRIC countries gives a good example for other emerging countries. Thank you for your kind attention.

N. Okonjo-Iweala:

Thank you very much. Mr. Ulyukaev, would you care to comment on the same issues?

A. Ulyukaev:

Thank you so much. I appreciate this possibility to speak here. A couple of brief remarks. First, I would say there is some gap, some contradiction between the share of emerging markets in global production, global reserves, and the share in global policy making.

What do emerging markets produce? They produce goods and services. What do developed economies produce? They produce a lot of headaches for everybody. Emerging economies use the rules, institutions, and infrastructures adapted and introduced by the developed economies.

And I am not satisfied with these rules, institutions, and infrastructures. Let us take three of them. Fiscal adjustment for instance. The emerging markets learned some serious lessons after the crisis of the 1990s. Now I would say that the fiscal balances of most of them are adjusted.

We enjoy surpluses or zero deficits. On the other hand are developed countries, who have 10, 12, 14% deficits, 150%, 20% of GDP is accumulated debt, regulation, liquidity production. In all these spheres, we have a lot of risks created by developed economies and consumed by the emerging markets.

We do have some examples of quite fruitful cooperation between developed and emerging economies in the sphere of financial market regulation. For instance, my friend Norman Chan and I, we are members of the Financial Stability Board and also our Chinese, Indian, Brazilian friends participate there as well.

And I would say that institution produces quite clear and effective rules in terms of capital requirements, liquidity requirements, leverage requirements, SIFI—systemically important financial institution regulation—and so forth. That is a good example. So let us go further in that direction. We have to have something like that in monetary policy decision-making.

Now, the Chair mentioned it before: there is a problem of some gap in interest rates and emerging markets face the issues of inflation, and CPI index growth. In that case, they have nothing to do except increase the reserve requirements, or increase the policy rate, or both, and they attract a lot of money from the developed economies. And the Central Banks of developed economies produce a lot of liquidity.

So, this is a great contradiction, creating a trend: disbalances, financial and banking disbalances. So it means that we together, all of us together, have to somehow manage the situation as long as it still is a manageable situation. At some point of course, we will have to address the fiscal adjustment position by creating clear transparent rules about how big debt, deficits, primary deficits, secondary deficits, and so forth can be.

And we have to execute somehow these rules globally. There is, I believe, the principal approach of mutual cooperation. A couple of words about tools. It was mentioned here about bilateral trade or multilateral trade in local currencies. We have a quite good agreement with our Chinese colleagues about that, we began with interboundary trade and this was enlarged to global trade.

We are working hard on the same things with our Brazilian colleagues. We began these talks with Turkey, Vietnam, and others. But, as soon as you trade, you have payments and settlements, you have somehow to save and you have accounts, you have to manage accounts, that is the problem of investments and reserves. You cannot use currency only in trade. You have to use it in investments.

In that case, of course, we have full convertibility and limited convertibility of the currencies. It creates problems, but we can manage these problems also. For instance, the Central Banks of our countries can have some special agreements about investment as part of reserves, by mutual agreement into each other's currencies.

We would put investments in renminbi and other currencies, and vice versa. I think that can help in creating a more sustainable situation on the financial market and that is the way to create sustainable investment. Of course, there could be a lot of criticism about how the limited convertibility of currencies could be resolved, but we have global experience: the Deutsche mark, for instance, and the French franc in the 1950s had limited convertibility, but they were included in the list of reserve currencies.

So it can be managed somehow. If we had examples like that in the 1950s, why do we not have examples like that nowadays? We have to work in this way and I believe this kind of cooperation will help to create a more adequate, more fair, and more sustainable financial order in the world. Thank you.

N. Okonjo-Iweala:

Thank you very much. Let me now turn to Minister Kelimbetov. Kazakhstan is an emerging market country that is doing very well and it is doing so off the back of oil, gas, and natural resources. I just wanted to say to you that countries like yours, emerging markets that are heavily commodity-oriented—you get 70% of your exports from oil—do they have a special responsibility to promote sound global governance on this? I will just put it out there. Many of the emerging markets that are commodities-based also suffer strong governance problems related to institutions that are not so strong, a lot of red tape, corruption issues. Is there a special responsibility for these countries as they emerge and contribute more to global growth to specially deal with these problems?

K. Kelimbetov:

Thank you very much for these questions. So let me start from the first question which was raised by you at the beginning of our conversation: what is the new role of emerging countries? I think the new role of emerging countries, including Kazakhstan, and this is not only BRIC countries, but I think also the growing Turkish and Indonesian economies, are driving new world economic growth.

Now we understand that there are some internal problems of sovereign debt and ageing populations in the United States and in Europe. And I think, first of all, the responsibility of the emerging market countries is to drive the growth. And I think we were aware of these events during the last global financial crisis.

All of us look for growth in China and the growth in China was more than eight percent, which leads us to believe that everything will be okay because we see the real and new drivers of the world economy, which cannot replace the previous drivers, but I think they accompany the previous drivers, and help.

Let us say that the economies of the world are like cycle racing, so we have new riders. It does not mean that the rest of the riders should not ride. So, all of the team should ride, but the alternative for the new growth will be these BRIC countries. I am very optimistic in terms of the growth of China and India, particularly in Russia, and growth in Kazakhstan is likely because we are in between all of them. We are next door to all of these countries.

And in these terms, I think all of these countries should follow all these previous achievements done in terms of transparency and corporate governance, and the corruption-fighting procedures by the developing countries. I think the rules are clear, and we should follow them. At the same time, you mentioned about what the particular responsibility of our countries is. We in Kazakhstan are doing well, and we are creating together with Russia and Belarus, the Customs Union.

And now, we are responsible, for example, for helping the countries in the CIS region which are not doing very well. I think this is part of the responsibility we created with special institutions, and I think we should deliver it. At the same time, look at the example of the Shanghai Cooperation Organization. During the crisis, China helped the countries in Central Asia a lot.

I think this is also part of understanding that the country that thinks about its own growth helps the whole region, and at the same time chooses to help particular countries. And I think this is very important.

It means that my idea is there should not be any antagonistic approach between emerging markets and developing countries. We have not replaced each other. We have to help each other. And I think now is the time for the BRIC countries to be leaders in this process.

N. Okonjo-Iweala:

Thank you very much. Let me turn finally to Peter Mandelson. I just want to say this. We are all celebrating the fact that emerging markets are big players. They are stepping up to the plate. They are doing well. But I also want to turn to you and say: in terms of global governance, are emerging markets really punching below their weight? Do we see them stepping up to the plate in global fora to take on this role? What about the Doha Round?

Part of the reason why the trade round has not been completed is the responsibility not only of some developed countries, but also of some emerging-market countries. How about contributions, to support low-income countries or invest in low-income countries? Do you think that in global governance emerging markets are playing the role that they should, and if not, what should they do?

P. Mandelson:

Well, my answer to that question is that they are punching more of their weight than they have done before. But then they have more weight than they had before. But they are not punching their weight sufficiently, and giving the sort of leadership in global governance, within the multilateral system, that I for one would like to see the emerging markets do.

Let us be clear about what has happened and what is happening in the world. Over the last 50 or 60 years, you have seen the bulk of that time with an Atlantic Consensus, a West, a United States of America, and Europe, broadly speaking, joined in shared interests, shared values, a desire to see those interests reflected in the world, including in economic terms. You have seen globalization in the main dominated by Western capital and Western priorities.

Over the last 10 or more years, you have seen both the economics and the politics shift and tilt away from that Atlantic Consensus to the East, to reflect the interests and increasing importance of emerging markets as a whole. In a sense, the G20 has come to symbolize and reflect both the transformation that we have seen in geopolitics to reflect that shift that I have described, which almost every single member of the panel so far has described in one or different ways.

Yes, the G20 reflects the transformation, but the G20 at the same time reflects also how far we have to go in creating a new model of global governance. How far we need to go in seeing the multilateral system and its various manifestations evolved in order to give us the sort of effective global governance that we want to see in the world.

There is no doubt in my mind that we will never get a settlement to reflect those global changes that have taken place without the emerging markets, without the BRIC countries buying into that new settlement very strongly indeed. When, you know they say to the West, "Don't lead in our name", quite rightly incidentally, then we say, "Well, fine but please lead more in your own name." We have got to see greater buy-in by those countries and economies, and we have got to see the system changing to allow them to do so.

We need better, improved rules for open trade and finance in the world. We need to see sustainable global balances managed in the world. We need to see a dependable banking system operating in the world. All those things require buy-in both from the West and from the emerging markets. That is why I strongly and passionately welcome and believe in greater cooperation, political collaboration between and amongst the emerging economies.

Just think of what the world would be like and how much more chaotic we would be, if we had every single country in Europe for example voicing its own interest, reflecting its own national priorities, rather than coming together, combining their strength and their weight in the European Union.

Just as that sort of combination and collaboration brings greater cohesion and greater coherence to governance in the world, I too believe that greater collaboration and combining of the strengths and weight of the emerging markets will also, other things being equal (but of course they never are), will other things being equal lead to more effective governance?

If you just look at two examples. One you have given is the world trade talks in the Doha Round. The success of those talks depended then, and they depend to a large extent now, on countries—emerging markets—organizing themselves to lift that world trade round over the finishing line and getting it done. It also incidentally requires the United States to decide politically that it wants that to happen, rather than to block it, as is the case at the moment.

But the point that I am making is this: unless the emerging markets want it to happen and organize themselves in a way that makes it happen, it will not happen. Take another example, climate change and the Copenhagen process and conference. That needed, it still needs, for a successful international agreement to be put in place, the emerging markets and economies to identify their interests where they can concede what they need, what they can contribute for that final agreement to be put in place.

I think that, if I were to leave you on this note, it would be this. I am slightly worried that what we will see during the coming decade is not necessarily a convergence, an integration of interests and politics amongst the emerging economies, but a possible fragmentation and divergence amongst the emerging economies, which will not help that growth, that emergence of the system of global governance underpinned by multilateral values and multilateral institutions that we need.

Just look at it in this sense for one moment. If you look at India and Brazil, India and Brazil have a relatively low level of industrialization in their economies. India's growth model tends to be based on services. Brazil's growth model tends to be based on large-scale farming. Both India and Brazil are very nervous of China's low-cost manufacturing and their ability to industrialize their economies in the face of China's strength and the currency advantage that it enjoys.

Whereas the emerging economies during the last decade have been fairly united in the sense that they all have been taking market share from the West—and what other thing could unite them as much that—over the next decade, you are going to see emerging economies taking market share from each other. And that is going to generate tensions.

This is my last point, if you look at trade in energy, minerals, and calories, just to use that phrase. You see that India and China, and I am generalizing here, are price takers from that international trade, whereas Russia and Brazil are price givers, to use a generalization in energy, minerals, and calories. So it may well be that the economic agenda that we want to see drawing countries together and enabling us to reach agreement on all those things that we need, in order to manage the global economy better, will be frustrated.

And you may well see the economic agenda and its unity being undermined as these growing divergences between the emerging markets unfold during the next decade and so on.

N. Okonjo-Iweala:

On that provocative note, I would turn to the audience. So then I want to tease Lord Mandelson and say it took the European Union 60 years-plus to try to converge, but your point is well taken.

P. Mandelson:

I just hope it will not take everyone else quite as long as the European Union.

N. Okonjo-Iweala:

Yes, good point. Let me turn now to the audience with the amount of time left and open it up for questions, either to specific panel members or to the panel as a whole, or comments. I know that there are some very senior people from emerging markets sitting in the audience. So please feel free to make your own comments and questions.

Who wants to start questions, comments? No one? No questions? I'm stunned. This is a very obedient audience.

If you have no questions, then let me perhaps turn to the panel, turn back to them and pose them a question that I really should not pose in my position, but I'll take off my hat as Managing Director of the World Bank for a moment, and be very naughty and say, "Look, you know you have the leadership of the IMF and the World Bank possibly in discussion at the moment, and it appears that we may

be heading for a situation in which we confirm relationships that have existed for the past 60 years, of Europe continuing with the IMF, and the US continuing with the World Bank with the leadership of or headship of these institutions."
This despite a statement that was clearly made by the developed countries saying that the world is changing and that this is now going to change. So what's your take? How can emerging markets emerge if they are not allowed to or if they are kept from doing that? Who wants to take? Should I turn to Peter again? Since you were quite eloquent on this global governance issue and any other member who wants to comment after that.

P. Mandelson:
You want me to comment on the fact that given the vacancy that exists at the headship of the IMF and the opportunity for all the emerging economies to come together and combine their strength behind one candidate, are conspicuously failing to do so? Did you want me to find that out?

N. Okonjo-Iweala:
Is that your answer?

P. Mandelson:
I would sort of be reluctant to do that, because it might appear provocative and I mean—look, my vote goes to Christine Lagarde, but then it would, wouldn't it? Because although I see a strong argument for a candidate from one of the BRICs at last taking over the leadership of one of the international financial institutions, and I have to say my first instinct was that it should be. And I can think of three or four: one from South Africa, one from Turkey, just to give you two examples but there are three or four others who are very qualified candidates from the BRICs to take over the IMF.
Why do I think that perhaps it is timely to give the Europeans one more go? Just look at the state that Europe is in, and just look at the collaboration that is required and the support that is needed from the IMF to help Europe get out of the sovereign debt crisis that it has found itself in.

And I think probably on balance, it would be helpful to have a European leader of the IMF, not least because you have got in Christine Lagarde, somebody who is not only a friend of mine, but who I think has very good personal qualities of intelligence and integrity to lead the IMF, that campaign is over for now. But there will come a moment, Chair, when the leadership of an international financial organization has got to pass to somebody who is other than American and other than European. I think that time should come sooner rather than later.

And the emerging economies and the BRICs have got to find a way of arriving at a consensus amongst themselves. Recently, they have not shown complete ability to unite behind a well-qualified candidate who cannot simply reflect their interests, but give the sort of leadership to the world as a whole, including to those developing countries who were not numbered amongst the advanced countries of the West, who are not numbered amongst the emerging economies, but who too often find their interests taking third or fourth priority behind the global leaders of one sort or another who make sure that they race to the table and occupy their chairs before anyone else gets through the door.

I'm just making, in a sense, a plea to the emerging economies in developing countries: more organization is needed to combine your strength behind candidates of real strength and calibre and unity at the end of the day that we'll see more of those individuals and personalities coming into more global positions of influence.

N. Okonjo-Iweala:

Thank you. We still have a few minutes. Let me, any other members of the panel who want to comment on this? Yes, Mr. Coutinho.

L. Coutinho:

Yes, I wish to respond to the provocation made by Peter Mandelson, about trade friction among BRIC economies, I think we should consider first that the complementary areas are so strong and there is a chance to create an inter-industry trade with many, many new opportunities.

The political agenda is an agenda which is positive. There is no noise in the agenda, and that has helped us to create the opportunities. So I think the cooperation for instance among our development banks in extending credit lines among ourselves and actively searching for diversification of trade and investment is a clear, very clear sign of this political will; of course there are frictions, but they are not overwhelming. They are not, and the areas of cooperation are much stronger.

N. Okonjo-Iweala:

Thank you. Any other comment? Yes, Mr. Dmitriev.

V. Dmitriev:

It's not a comment it's just a wish, especially with regard to Peter's provocative, and not impossible, view of emerging countries competing with each other. I have a wish for a time when ‘emerging’ countries become ‘emergent’ countries. We do not produce any headaches for anybody.

N. Okonjo-Iweala:

That about summarizes it. I just want to say that this has been a very interesting panel with a varied set of interesting viewpoints that we have been able to listen to. And I hope you're taking something away from it. It is incontrovertible that emerging markets are out there performing and this tide is not going to turn but we are not home free yet.

As far as they are concerned, there are strong challenges in their way. We didn't cover the fact that I mentioned before, that 70% of the world's poor live in emerging-market economies. We must not forget that. That still needs to be dealt with. They face huge infrastructural challenges. If you think that India has said that it needs a trillion dollars for investment in the next few years in infrastructure, I looked and Russia has also said it needs about a trillion dollars for investment. And we could go on and on for the next decade.

Where is all this going to come from? How will it be mobilized in order to sustain the growth in these countries? How will they strengthen the internal governance in their own countries, and shape their institutions so that they can continue to perform? These are strong challenges and, above all, this interesting conversation about will they be able to continue to collaborate?

We have very good examples of the development banks now coming together in a complementary way trying to work with each other with this new agreement—that's very promising. But how widespread will this be?

And above all, will the emerging markets also remember the low-income countries which have not yet emerged, and will they invest in them in a way that helps these same countries? We did not talk about that, but to me, I think that's a very critical role that the emerging markets also have to play.

So with that, let us look to the future. Let us see what happens five years from now, at this Forum, we will take stock and see if indeed the growth of the emerging markets has been sustained and if they have been able to collaborate better with each other. Please give the panel a round of applause.