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Studies in Leadership: Conversations to Make a Difference
THE WORLD 2020: THE CASE FOR OPTIMISM
Panel

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Moderator:

Geoff Cutmore, Anchor, CNBC

Panellist:

Oleg Deripaska, Chairman of the Management Board, Chief Executive Officer,
UC RUSAL

G. Cutmore:

Ladies and gentlemen, welcome to this discussion. I am hoping that over the course of the next 60 minutes, we are going to have an intriguing, challenging, and hopefully entertaining conversation about the outlook running up to 2020. The discussion is entitled 'The World 2020: The Case For Optimism', and I am hoping that Lord Mandelson and Oleg Deripaska will both give us good reason to be excited about being around in 2020.

I am making you aware of the fact that we are filming this session. By dint of the fact you are in the room, and staying in the room, you give us permission to use your image if we turn this into a programme for air on CNBC at some later stage. If anybody is uncomfortable with that, now is the time to put your hand up. If there are no objections, then we will carry on.

Welcome to this CNBC programme on the case for optimism in 2020. We are on the ground in St. Petersburg. With me, I have the Right Honourable the Lord Mandelson, European Commissioner for Trade (2004–2008), and Oleg Deripaska, the chief executive officer of RUSAL. Gentlemen, thank you very much for being here for this conversation.

I would just like to start by taking a poll around the room. Think about your lives. Think about the opportunities that you have and that your children have for advancement. Think about peace, prosperity, and comfort. What I want to know from you, with a show of hands, is whether you are pessimistic or optimistic about all of these things improving up to the year 2020. In 2020, do you think life is going to be better than it is today on many of these fronts? Or are you living an anxious life at the moment, and you feel life will become more anxious as you see global and domestic trends unfold, and things happening on the global landscape that make you feel uncomfortable, or in your own personal lives. Please now with a show of hands, do you think 2020 will be significantly better than today? Are you an optimist in the room? That is a good showing. Now I shall ask you whether you feel pessimistic about the future outlook. Do you think things are going to be worse in 2020? Please raise your hand. Well, I am encouraged and comforted by the fact that I think three quarters of the room generally feel that things are going to be better in 2020.

Let us open our conversation, and let us start by looking at some of the issues that we are facing. Lord Mandelson, if I could start with you. I think you are best placed to give us a sense of how you see things. Let us talk about the greater system evolving. What we have experienced is a large phase of liberalization, of globalization, a belief in the third wave, if you like. The idea is that it is better to engage in trade and cross-border activity, and broadly operate on a multilateral basis; that is the way that lives generally improve. That idea is undergoing a challenge at the moment, it seems to me, as we see cross-border activity breaking down, and trade issues starting to become problems in relationships. Tell us how you think this system is going to develop from here to 2020.

Rt Hon. Lord Mandelson:

You certainly have problems in the multilateral trade system. I am not going to dwell on those; I may come back to them later. While we see the quite rapid emergence of a multipolar world, I do not believe that multipolarity – meaning the emergence of different, rather successful, fast-growing pools of economic activity on different continents – is being matched by a strengthening of multilateral frameworks, of policy-making, of taking collective decisions and governing the world in a more satisfactory way. In that sense, I think the multipolar world is out of sync with the strength and dynamism of the multilateral frameworks that need to accompany it. We can come back, perhaps, and discuss why that is.

I yet would challenge you in this sense. I do not think that the liberal tenets and assumptions underpinning the growth and acceleration of globalization in the world, the liberalization of markets, and the freer flow of goods, of capital and of people have gone away. I think that the global system has given itself a very deep and severe shock by the near collapse of the financial system. Certainly in Europe, the euro zone has had a sort of near brush with death, but has survived it and has emerged from it. In my view, Europe will not waste the crisis that it is undergoing. Again, we can come back and discuss that perhaps in more detail.

Arguably, Europe was becoming a little complacent, a little self-satisfied. It was taking for granted a set of benign economic conditions which have existed by and large since the Second World War. With those benign economic conditions

and the growth that flowed therefrom, I think that, in many respects, Europe rather over-reached itself. It over-reached what it was borrowing, the indebtedness that it was building up, and what it was spending on itself. What we have seen is fragility in some of the economic fundamentals for Europe, which we now recognize have to be put right, and the structural changes and reforms that are needed to do so have already begun.

In that sense I think we have had a very severe wake-up call, but I do have some optimism about 2020 onwards. I think that all the changes needed to bring about the structural reform that is necessary at national level among many European economies, and the transformation of the euro zone and its currency into something more durable and sustainable, have started. In that sense, as I say, we are not wasting the crisis. I think we can draw some encouragement but not complacency, because we still have some way to go as Europeans.

G. Cutmore:

What has been interesting as we have seen the crisis unfold is that we have seen starker contrasts between the attitudes in what I would call the developed world and the developing world over this multilateral globalizing system we have experienced for several decades. It seems to me that if you talk to people here in the Russian Federation, if you talk to people in China, or India, or in many other developing economies, they see the system as having been orchestrated to the advantage of developed nations; they, if you like, drew up the rules that everybody else had to participate in, and there is not a huge amount of sympathy for the predicament that the West got itself into.

Now through the Group of 20 (G20) and other organizations, you see very much a call for a redrawing of the global balance of economic power, and a greater role for these governments and these people to influence the direction that we move in when it comes to allocating resources, sharing profits from economic activity, and directing appropriate allocation of capital.

Mr. Deripaska, let me bring you in on this, because this is something that comes up increasingly as I travel the world and talk to people. They feel that everything that the developed world promised ultimately has melted away. The benefits of

globalization ran to the developed world, and the developing world has not enjoyed them equally.

O. Deripaska:

I am not sure about that. If you go back 25 or 30 years, China was not on the radar, economically speaking, and it would not have emerged without support from the West: investment, technology, markets, general support in terms of integration into the economy. Yes, the system is fair, but there is natural competition. We have national governments, national politics, these will always dominate in each country. Yet at the same time, I can see that the world shifting more and more towards developing nations. There are many advantages for them to begin modernizing. I believe this is what the Russian Federation can take as an advantage. We can modernize our economy and our lives using the best possible solutions that have already been developed.

For China, it is slightly different, because they have the next level of difficulties. They now should be developing new solutions for the environment, for energy efficiency, for energy storage and transmission, and for many aspects of life which have never been needed in Europe or the United States of America. For example, they must address the question of transport speed and intensity, and how they utilize infrastructure. That is why they now need to challenge themselves. It will be difficult for them, because for creativity you need to have freedom, which, of course, could be enhanced by network solutions. Yet they have suddenly closed networks for political reasons.

You cannot stop the development of nations. Yes, you can create better conditions for Africa and elsewhere, but you cannot stop them.

G. Cutmore:

Would you like to respond to the point? You were, I think, shaking your head, Lord Mandelson, as I was making the point, and nodding at times. There is a feeling that the spoils of globalization have not been shared equally. In the developed world, you talk to young Americans who are unemployed, or young Spaniards who are unemployed, and quite often they will blame globalization.

They may be misunderstanding the benefits, but they see that as part of the problem, whether that is fair or not. Then when you look at the developing world, the disparity in wealth and the share of economic activity is even larger. Looking forward to 2020, what do we actually need to do to replace what we had? How then will the world be governed in a way that more people find acceptable?

Rt Hon. Lord Mandelson:

One thing that I am sure of is that we will not sustain globalization as we want to see it, and as we want to benefit from it, and we will not sustain public support for continued open and liberal economies in the world unless people and countries across the world feel that they stand to gain, to have their fair share of the benefits and advantages of globalization.

I think that what has happened is that we have gone through a particular phase of globalization that has been led by financial services more strongly than any other sector. I think what has happened in financial services is that a very small minority of people who have been heading that extraordinary drive and spread of globalized financial services, and the acceleration of change in the financial system have benefited disproportionately – some would say extraordinarily – not at the expense of others, but certainly more than the bulk of the population. Therefore you have had, accompanying the process of globalization, a sharpening polarization or disparity in income between those who represent a very small fraction of the population at the top and the rest. We have not seen the distribution of the fruits of globalization, therefore we have seen a growing inequality in society, both, as I said, between countries, and among groups within individual countries that people do not support it; they do not like it, they find it unattractive, it does not chime with their values. They want a very different deal and a more equal outcome from the globalization that they support.

The job therefore of governments and ministers, in my view, is to pursue policies that do not undermine globalization, that do not push back against the forces of growth, of trade, and of market liberalization that, broadly speaking, has lifted everyone's boats. At the same time, however, they must take some additional action and pursue policies that create social goods, welfare benefits, returns for

the mass of people, rather than to see that small fraction continue to enjoy the bulk of the spoils.

That is why I am, in a sense, an economic liberal, and a very strongly committed economic liberal, but somebody who wants to see economic liberalism, that openness, that freedom, that continued flow of finance, of capital, of goods, of people, and of ideas around the world operating within a framework of rather more social democratic social policies in which governments intervene more to distribute the fruits more fairly and equalize opportunities for everyone in society. If we do not do that, then I think the liberalization that we are right to champion will not have the results we want to see, and will be more difficult to sustain politically. There will be a public backlash against it, which will make it considerably harder for governments to bring any sense of coherent governance and stability in what we are trying to create in the future.

G. Cutmore:

I have to push back on you a little bit here, because you have talked about how “we will have unrest and we will have protest” – indeed we have unrest, we have protest now. We have youth unemployment at record highs in Southern Europe. People in these countries took a gamble. They said, “OK, we are prepared to see our economy brought into a larger multilateral grouping”, namely, they are part of the European Union (EU), they are part of a single currency bloc. When they look to where they have come as a result of being part of this grouping, they might ask themselves, “Was this actually the right approach? Should we not have just operated in our own very narrow national interest? Then ultimately we would not be bound by the handcuffs of a single currency and the fact that we are unable to devalue or engage in economic activities that would make ourselves more competitive?”

There are many people at the moment in Europe who look at a globalized, multilateral approach, and say, “It has failed for us. We should go back to our own narrow self-interest. That works better.”

Rt Hon. Lord Mandelson:

There is absolutely no evidence whatsoever that narrow, national, individual self-interest as an economic doctrine works any better for the mass of people than working cooperatively, keeping economies and trade flowing in an open way. On the contrary, the growth of the global economy, and certainly the growth of Europe's economy, has been driven by openness, by a free flow of trade, but also, in Europe, by working together, not just to project our values in the world but also to assert our interests in a world in which we are becoming increasingly slightly uncomfortable, squeezed by a still very strong North American economy on the one hand and the emerging and rising economic powers of Asia on the other hand.

I do not think that Europe, if it were to go back to its fragmented state as a collection of relatively very small countries and economies struggling on to earn their living in the world individually, would give us the returns and the rewards that we want and that, frankly, we have taken for granted in the past, but for which we must work a whole lot harder in order to generate in the future.

Why am I optimistic about Europe's ability to earn its future and sustain its living standards and quality of life? Although Europe as an asset class is obviously a very mature one, you still have around 500 million people, who are the richest in the world, gathered together in a unique economic formation, in a stable and open society, with a knowledge and science base, an ability to research, to develop, to innovate and to harness that knowledge and apply it to everything we do in our society, in our workplace, and in the new products and services we generate, produce, and trade in the world. We have not lost all those fundamental strengths. We certainly have gone through a period in which the political and economic elites in Europe have messed up. I mean, they launched the single currency euro zone – nothing wrong with the single currency as it happens – but within a framework of policy and an architecture that was not complete. We started running before we had completed the construction of what we were operating within.

Bear in mind, Geoff, if you will, in 30 years' time, Chinese per capita income will still be half of Europe. Now, I do not minimize the structural changes, the reforms and the changes that we need to undertake in Europe in order to revise our

competitiveness and to make ourselves stronger and more able to earn our living in the world. I do not minimize any of these changes whatsoever. But you must not, at the same time, lessen the fact that we have quality, style, tradition, rule of law, and a knowledge base that together comprise fundamental strengths in Europe, and we have not lost those. We have made a mess in applying them in some respects to the year-to-year management of our economy, but the fundamental strengths of Europe have not gone away. We still have in Europe the greatest collection of brand equity of anywhere in any continent, anywhere in the world.

Those are the fundamentals on which we have to rebuild our economic strength, and that is the challenge to us. I believe that we can and we will do that, but we need to do it together; we need to do it as a European team; and we need to do it with a darned sight better collection of policies and political leadership than perhaps we have had over the last decade.

G. Cutmore:

Oleg, I see you shaking your head a little there. Are there some issues you want to respond to?

O. Deripaska:

Europe is indeed great; it has all the best assets in the museum. The problem is that you could not mobilize it. Ms. Merkel has said that Europe is a great museum with the first car, the first reactor, and a lot of other firsts, but how do we mobilize it? How can it be made productive? There are great assets in education and health care, but they are very expensive. Even for Europeans, as we know, it is very expensive.

If we come back to our agenda, 2020, there are just seven years left. In our business, we already know what sorts of product we will produce and how we will design a new factory on such a timeline. In seven years we can implement improvements.

I focus more on the Russian Federation, but for Europe there should be economic solutions. With such a high currency, a different setup is necessary to

move forward: Southern Europe, Eastern Europe, Central Europe, the United Kingdom. We can see that Europe has been in a sort of stalemate for the last 18 months. If Mt. Bernanke is right, then the whole focus will move back from the United States to Europe, and the whole world will see that, for two years, nothing happened. What is next? That is a real problem.

Moving forward, however, we have a great opportunity. For us in the Russian Federation, Europe is an important partner. The World Trade Organization (WTO), thanks, as our President mentioned today, to Lord Mandelson, is already a real issue for the Russian economy, a real challenge. If we consider what will be the major driver of change in the Russian Federation – it is very bureaucratic, we will need to change a lot – unfortunately it will not be from the bottom up; it will be from the top down.

The WTO will be the biggest challenge and it will change the Russian Federation. If you look at our achievements such as low unemployment – currently at 5.5% or slightly lower – if all of the barriers were dropped, unemployment would be around 15–16%, and to compete we need to update infrastructure, reform energy, and improve the legal system. Today, some steps forward were announced. We need to have a better agenda and clearer communication between Europe and Asia. Better communication with the Islamic community is also an important factor for us.

If you look at the economy and the opportunities we have in technology, we could greatly improve agriculture in Europe, the Russian Federation, and Asia. There are new solutions to make us more productive. This is an important solution for maintaining living standards and helping developing countries to grow. New materials and new construction components offer a unique opportunity to dramatically improve energy efficiency. New ways to store and transmit energy will give us more flexibility. New sources of gas – as demonstrated by the United States of America with shale – and, we hope, new sources of oil as well, are actually the second factor which will change the Russian Federation considerably. Naturally, the Internet, social networks, and the ways in which communities can communicate with government and with the local authorities will also lead to change. If there is a problem to be exposed, it

will happen not in two weeks' time but in seconds after the fact. And a response will be expected.

I think that all of this will create a dynamic for change. Although not a major issue at the moment, I think nuclear energy and new developments in nuclear energy will be very important. We need to see a future where we are less dependent on our resources and more dependent on our technology.

G. Cutmore:

You have talked about a long list of things where obviously we are going to see innovation and we are going to see progress, and a lot of that is going to be driven by the private sector. I still think, however, that it is important to get to a conclusion on the framework within which the private sector is able to operate.

We have heard Lord Mandelson speak about how he sees a need in Europe to move forwards in terms of leadership, governance, and regulation, particularly around the financial services sector, but the Russian Federation is itself at a crossroads. We heard the President today talking about a number of initiatives, some of which we have heard repeated over and over again.

The Russian Federation is engaging in multilateral agreements. It has made itself a World Trade Organization (WTO) member and is now very quickly becoming enmeshed in disagreements with other WTO members about certain matters; the auto industry comes to mind but no doubt there are a few others. Do you think it is useful for the Russian Federation to give up a little bit of sovereignty to be part of this multilateral group?

O. Deripaska:

I think it can improve our competitiveness. With regard to the disputes you mentioned on cars or how, as was raised earlier, the European Commission treats energy prices in the Russian Federation, we hope that the European Commission will treat the American energy prices in the same way. The American price for gas is now cheaper than Russia; this means nothing. I can see that it may damage our image. We have a very opinionated leader, and one hears his own opinion on a lot of things, but it can help us to move forward and to

expose our problems, because it will be done in a competitive way. If Volkswagen is not happy with what is going on in the Russian Federation, they will immediately be able to appeal. They may have their local production here but would nevertheless like to have rules aligned to the WTO. It is the same for many sectors.

The Russian Federation was not fully prepared, to be honest, and now we are catching up with this process.

Rt Hon. Lord Mandelson:

I think the important point here, Geoff, if I may, reflecting what Mr. Deripaska has said, is that what we are seeing is progressive changes leading to the Russian Federation's growing integration into the international economy. In a sense, World Trade Organization (WTO) membership is largely symbolic, at least at first. Yes, it lays down certain conditions and you make certain undertakings, and they are phased in over time. The point about WTO membership, however, is that it offers huge opportunities in the international trading system as a whole and in the global economy, but it does not guarantee results.

The country itself has to make the changes to grow its strength and its competitiveness, and to undertake the transformations in infrastructure and logistics that President Putin was talking about at the Economic Forum earlier. You must create an environment in which businesses can start to grow. Government has a very important role in contributing to the creation of that positive climate and environment for business growth; it has a very important role in the supply side of the economy, providing the basis upon which businesses can grow, but at the end of the day, it is down to individual enterprising people and entrepreneurs who are taking big risks in creating and developing their businesses. What they have the opportunity to do, now, is not simply to grow those businesses in the Russian market alone, where only 3% of the world's consumers live. What this growing internationalization offers the Russian Federation is the opportunity to supply goods and services of a high quality to the other 97% of the world's consumers who live outside the Russian Federation.

What struck me, seeing Mr. Putin and Ms. Merkel on stage at the Economic Forum earlier, was that Europe and the Russian Federation could indeed do with working together better. I mean, Europe needs the Russian Federation's energy. I do not just mean its oil and gas; it also needs, in some cases, its nuclear know-how as well. We also need the Russian Federation's market into which to sell our products. The Russian Federation, on the other hand, needs investment from the European Union (EU); it needs access to sophisticated technologies and skills; and it needs our involvement and our participation in the modernization of its economy. If ever there were two people made for each other, it is the European Union and the Russian Federation, with the sort of complementarity of our respective economic, market, and energy needs.

I was rather glad that somebody popped up from the audience and reminded them this afternoon – and I am glad that Ms. Merkel and Mr. Putin responded positively – of the work I helped to do all those years ago in creating a vision of a really deeply rooted economic, investment, and trading partnership between the EU and the Russian Federation. We did that work scoping out the possibilities. Now, that the Russian Federation is in the WTO, it is, in my view, time to bring down those plans from the shelf, dust them down, and set about implementing them in the years to come.

G. Cutmore:

That is indeed great, but there are those who I speak to on a regular basis – and we have had two days here at the Forum with this issue recurring frequently – that many international investors and businesspeople do not think that this is a door that opens equally in both directions.

Let me raise the issue with you, Oleg, because it is one that comes up and you heard it a lot too, no doubt, of corruption as far as incoming investors into the Russian marketplace are concerned. Is this something that the government is getting on top of and is pursuing the right agenda on? Or is this something that really should be left to the legal system and the private sector, because it is mainly an issue of private sector corruption? I am interested to get your analysis of the problem and how it gets solved, because increasingly that seems to be the

one and only barrier to further investment into the Russian economy, be it through foreign direct investment, capital expenditure, or otherwise.

O. Deripaska:

We inherited corruption from the Soviet Union. To fight it is a task that government, political leadership, business, and society must do together. There are not many examples. We had a leader in the Russian Federation, Stalin, who once fought corruption in a very drastic way. This could not be implemented anymore. That is why the only solution is more transparency, more pressure on the legal system to respond, and more transparency in the state in the budget spending and allocation of resources. Over time, I can tell you, the situation now has improved dramatically if you compare it to 2002 or 2003.

The issue is the Russian budget. That is why there are more cases creating a sort of sense that nothing is going on. However, it is indeed going on. In my view, the development of the middle class, economic growth, and transparency will create ways to reduce this problem. For the foreign investor: yes, you can act alone in the Russian Federation, but I can see a lot of successful joint ventures that can actually handle the issue. I can see a lot of big investment when an investor goes directly to the federal or regional government and sets up a proper framework for the project. I have seen success in that, and I believe that this is the right way to do it.

Rt Hon. Lord Mandelson:

At the interface between government and the business world, if you are not careful and if you do not have the transparency that Mr. Deripaska is talking about in terms of more mature regulatory and political institutions necessary to police this, you are going to get corruption. It is not unique to the Russian Federation. I am afraid that it is a poison that exists on every continent, particularly in economies that are fast-growing. They are, in a sense, developing and growing faster than institutions and the practices needed to contain it and to police it. I do think that Mr. Deripaska makes a very good point however. Increasingly, people in the Russian Federation, as we have seen in other

countries, will not tolerate it. They will see it, they will hate it, they will rebel against it, and people who are messing with it will get the message very strongly that if they do not stop, and they do not change their behaviour, then the public are not going to tolerate it, and there is going to be sanction taken against those people. Naturally, that is not going to happen overnight. It is not going to happen tomorrow or next week, but it will grow. The intolerance of corruption, as we have seen in other countries in the world, is a feature of the development of those economies, alongside the development of more open, democratic societies. I am sure that is exactly what you are going to see in the Russian Federation as well.

G. Cutmore:

We all want to get to the same end goal on this story. I will just ask one last question in this regard. Is the Russian model just a different model to get to the endgame? I know the United Kingdom system very well, which is very similar to what you see in many European countries and in the United States of America, where you have a separation of powers effectively. Everybody acknowledges them, everybody recognizes they have their role to play in a system of checks and balances, and sometimes the media is called in as the fourth estate to keep a check on the other three. Is the Russian system going to evolve in exactly the same way, or do we have to think in different terms, that there has to be a stronger, top-down leadership, as represented by the President, who gives more direction over the separate bodies of the State?

O. Deripaska:

For the next eleven years, there will definitely be stronger leadership. I think the Russian Federation is prepared. I hope that economic growth will create this fundamental opportunity for more transparency, for more proper budget allocation, for more checks and balances, and for civil society to be much stronger. Then in the Russian Federation we will see, perhaps not the United Kingdom's system, but one that is close to the European system.

G. Cutmore:

Let us move on. I do not want to get bogged down in this. This was meant to be the case for optimism.

Let me ask about disruptors. This is a great topic, and it is one that I think businesspeople are very interested in because quite often it is where they look for their next opportunity. As you look at either the domestic situation here, or in your own country, or on the international stage, what do you see in terms of major trends or disruptors over the next seven years that either represent opportunities or will lead to significant change in outcomes?

Rt Hon. Lord Mandelson:

Well, the greatest disruptor is technology.

G. Cutmore:

What specifically? Are we talking about the Internet and social media? Three-dimensional printing? There are a lot of things in technology.

Rt Hon. Lord Mandelson:

I would say the digitalization of the economy right across the board. Everything is capable of, and likely to, change. What we do, how we do it, what we produce, what we supply is touched by the process of digitalization. It is going to bring, additionally, not just huge opportunities for the economy and for enterprise in creating jobs and incomes for people, but will also have a very disruptive and, in my view, on balance, positive impact on society itself and the way in which we conduct our relationships in society, and the way in which we conduct our democracies. We can either fear it and try to hide from and minimize it, or, on the other hand, we can go for it, embrace it and optimize its impact on our economy and society. I, for one, would be in the latter camp not the former.

O. Deripaska:

I agree with Lord Mandelson. It will affect education, health care system, and the service industry in general. Globalization in this environment will also be greatly accelerated in terms of its effect on national economies.

G. Cutmore:

There is obviously a Jekyll and Hyde side to technology, and we are seeing that express itself in many forms. There was one such example this week, with a press release allegedly sent from the government announcing the departure of the head of Russian Railways. Quickly there were denials, and this was said to have been a hoax and nothing to do with the government. Again, that is people using advanced technology in a negative way. Of course, there are broader issues now about the use of the Internet by state agencies, Prism in the United States of America for example. Are the Chinese engaged in espionage through Internet technology? I just wonder, as we look forward to 2020, are there ways that we can contain the risks without losing the benefits?

Rt Hon. Lord Mandelson:

At the beginning of this discussion, I suggested that we are seeing extraordinary changes and transformations in the global economy and in the world. One of them, that we have now touched on, is digital technology and its impact on absolutely everything we do, everything we produce and all the services we provide. We do not have the frameworks for discussing how these changes are going to be managed, and the impact they are going to have on relationships internationally.

With regard to the example of cyber-security and cyber-warfare, we are increasingly seeing the ability of countries, or forces within those countries, to obtain information, and to steal data that does not belong to them – although that itself begs the major question of ownership. What are the safeguards? What are the protections? How do we stop this interaction spiralling and developing into a new form of warfare in the world? What is the forum to discuss it?

The United States of America is really agitated about what is going on in China, and what they see as constant cyber-attacks on their storage of information. In the meantime, many people in Europe are very alarmed by what they see as the Americans' capability for using the Internet in different related means to take information about individuals and to monitor what is going on in Europe.

I am not saying who is right or wrong here, but one thing I am absolutely sure about is that if we are not going to see a mutual and assured destruction through the use and misuse of these technologies, we must find new, multilateral frameworks, in which to discuss them and come to agreements about their use, how we are going to interact, and the respect that we are going to show each other.

There are many other areas, increasingly, where we are just not seeing the development of the means of management, of governance, of respect, of coexistence, and of cooperation that we need if we are going to live in a half-decent world in 10, 20, 30 years' time. We must catch up. That is the job, primarily, of politicians and ministers, but they sometimes need to be shoved forward and given a sharp kick up the pants by the people who want to see them exercising greater responsibility and taking the action on behalf of people.

G. Cutmore:

What is that forum? Because the forums that we look at the moment, that are meant to be opportunities for arbitration, agreement, and the resolution of disagreement, are not working, are they? We saw that at the Group of Eight (G8), President Putin felt he was being harried and isolated by other members over Syria. We have seen constant disagreement in the G20 about how the group of emerging economies moves forwards as a bloc. We have seen disagreement over many issues between the G20 and the G8. At the WTO, we failed with the Doha Round. There are so many areas where we have multilateral conversations which just constantly break down. There is a lack of leadership, and there is a lack of trust.

Rt Hon. Lord Mandelson:

I think the failure to reach agreement in the World Trade Talks in the Doha Development Round was a massive setback for multilateralism and governing the world in a half-decent, half-sensible way. The fact that we were unable to reach an agreement for the first time ever was not only serious for the future of a

rules-based international trading system, but, in my view, it has ramifications for how we run things in the world as a whole.

I remember in 2009, at the height of the global financial crisis, when then British Prime Minister, Gordon Brown, chaired the Group of 20 (G20) Summit, I felt very optimistic that what we were seeing in the G20 was an emerging steering committee for the global economy. I remember, with great determination on his part, that he basically locked all of these heads of government and of State in a room and did not let them out until they had reached agreement on a whole series of measures and an agenda which he had set them as their homework at the beginning of the day. We came out with a great communiqué. We came out with an amazing agreement on a whole number of issues that people thought that we would never unite around. In some cases, those measures and those decisions were implemented. In many other cases, I am afraid that they were not. As people got over the hangover that they experienced from having imbibed too much, in a way, which is what produced the financial crisis in the first place, people forgot about how painful the whole experience was and started relaxing again. The G20 sort of sat back and relaxed.

Now, we need to re-imbue that G20 process, that sort of institution, and turn it into a more functioning and effective body, because I cannot see any alternative thereto. There is no structure that brings together the growing economies and emerging powers with the established, advanced economies – the old Atlantic Power – and their consensus and their institutions that govern the world, broadly speaking, as a reflection of their interests and their priorities in the 60 years following the Second World War. Collectively, these groups must sense of all this.

Just creating an Old World and a New World and having them polarized and simply at each other's throats is not going to solve anything, and is not actually what people want. What they lack are the frameworks and the institutional means to manage things in a more collective and cooperative way. That is what we must focus on.

G. Cutmore:

Mr. Deripaska, let me come back to you. Social media is part of the whole technology story, and, in a way, is almost overtaking government abilities to manage it. Some people who have a libertarian streak say that is actually a good thing. They embrace Ronald Reagan's comment that it is an oxymoron when the man from the government turns up and says, "Hello, I am from the government and I am here to help." There are also clearly those who argue that, in fact, you just let the system get on and take care of itself without constant intervention from governments.

There are those who have seen the rough side of that: governments in the Middle East as the result of the Arab Spring; in Turkey to some extent; we have seen social media campaigns here in the Russian Federation that the government has not been happy about; and we know that the Chinese Government is also unhappy about what they see sometimes as unfettered and uncontrolled campaigns against government policies conducted on Weibo and other social media websites.

Do you think we should just allow social media to evolve? Will that help us towards this green land of 2020, this more optimistic world that we are looking for? Or should social media be carefully regulated to make sure that we do not have problems?

O. Deripaska:

There is no chance of that. You could not stop this process. The issue is that you need to have strong leaders. If leadership is so affected by the morning opinion poll that it flip-flops on its views, then the country is better off without such leaders.

You mentioned China. We have been impressed. We had one of our advisory boards there, and the social media people told us that the average blogger in China has 20–25 million followers. If they felt something wrong was happening, they could easily muster popular to take to the streets. The government now reacts almost immediately, in a way, through their actions. This is the new reality, the new democracy as you might call it. You just need to adapt to it. You just

need to be able to really create competitive ways to measure what the social network can produce.

In regard to Europe, the United States of America has it easy in comparison. They have the dollar, new industrialization, shale gas, shale oil, and opportunities in Latin America. Europe does not have such luck. Therefore, they need strong leadership to be able to solve problems and find new consumption patterns. You need to bring in new investors, otherwise all your great assets and all your great achievements will not be use, and it will not create the platform for growth.

G. Cutmore:

What is the recipe to achieve that?

O. Deripaska:

First of all, look at the currency for Europe.

G. Cutmore:

Break down the single currency bloc?

O. Deripaska:

Maybe not break it down, but try to truly assess the value of the currency. What has happened since the currency was implemented? Why has it become two times as valuable as it was? Was it increased productivity in Europe, or was there new shale gas deposits discovered under the continent? No, it was just the matter of the inefficiency of the banking system and the European Central Bank. There should also be more flexibility on the part of Germany if they want to keep the benefits of being a member of the Union.

G. Cutmore:

Let us take another step forward. We have talked a bit about China, tangentially. Let us focus more on China. Opportunity or threat? And how does it fit into our 2020 story? We know China has been a major driver of growth, and it represents a real engine for the global economy. If you look at the allocation of capital,

however, questions are being asked about whether it is being mismanaged, and whether the slowdown is a self-inflicted injury at this stage. Your thoughts are welcome on China, as we come towards the end of the hour here. What do we need to see evolve in China to improve the outlook for 2020?

Rt Hon. Lord Mandelson:

As a trade commissioner, I dealt a very great deal with China. I negotiated constantly on different agreements, different issues, and different problems that we had, and it was hard going. It was a struggle, but I never, not for one moment, lost my faith in the fact that China's growth was an opportunity, obviously for the Chinese people, hundreds of millions of whom have been lifted out of poverty as a result of the economic growth that has taken place – but an opportunity for the rest of the world as well.

Where I worry, however, are certain features of the Chinese economy that are a threat, in my view, to that growth and to the opportunity it represents. For example, I think the financial and banking system contains within it the seeds of future breakdown, and therefore disaster for the rest of the economy, not just in China, but for the rest of us. The State-owned enterprise sector desperately needs to be reformed. This is not just me saying this; Chinese leaders acknowledge it as well.

Of course, bringing it about is an uphill struggle. It involves major upheaval which threatens, in the short term, people's jobs and incomes, and therefore social instability. This is a backlash that Chinese political leaders do not want to face. That does not mean to say, however, that the need for reform and for change is going to go away; it is not. The longer you postpone it, the more you are storing up trouble for your own economy, but also the longer you postpone it, the more radical will be the surgery and the change that you have to undertake eventually. In the meantime, you have lavish, unjustified subsidies being devoted to excessive production of steel and aluminium, and to other sectors of the Chinese economy that are not only unhealthy for China's growth and economic stability in the medium- and long-term, but in the meantime are depressing prices, distorting markets, and putting huge pressure on production elsewhere in the world, to the

exclusion of our jobs and our livelihoods as we fail to compete with that subsidized production.

I could go on. China is not going to be able to rely, as it has in the past decades of its economic growth, on a never-ending supply of cheap labour. It is going to have to raise its productivity and strengthen its competitiveness by other means. It knows this. That is why it is investing so much in new technologies and partnerships with other investors from different countries. But is it doing it fast enough? Is it doing it in a serious enough way? Is it changing its own regulatory conditions and rules in its own economy to enable that foreign investment and those partnerships to come together in the way that they need? In my view, not fast enough. China must, in my view, accelerate the rate at which it brings about change and reform in its own economy to avoid a serious threat of breakdown and crisis in years to come.

G. Cutmore:

China rising, then. Risks and opportunities?

O. Deripaska:

I think we need stability in China. They need to solve the major issue of energy. Last year, they burned 3.7 billion tonnes of coal. You can imagine how big the emissions were and how much ash they put in the ground. They need to solve that. Without energy, they cannot move forward. Of course, we need to assist them with their nuclear systems, otherwise they will not develop with proper safety standards and we will have more disasters like we saw in Chernobyl, Three Mile Island, and Fukushima. The technology for the storage and transmission of energy is not available there, and they need to get access to it. Energy is very important for China and for its stability.

The second issue is also related to the environment. You cannot breathe in Beijing anymore. You cannot stay there for more than three days. In most industrial cities it is the same story. They need to shut coal-fired power plants and substitute them with appropriate nuclear and gas solutions.

As the Lord Mandelson said, reform of the State sector and industrial policy is important. We can see a huge overproduction across the steel industry. Last year, 755 million tonnes generated less than USD 1 billion profit. They must stop this production. They must stop this untransparent subsidy which is utterly destroying the market and creating the wrong signals. Industrial policy with regard to State enterprise reform and the development of the stock market is a great opportunity for investors.

Although perhaps this should be dealt with from the outside, China should settle its disputes with its neighbours. They can begin innocuously, but could develop in a very bad direction. Relations between China and the countries of the former Soviet Union, the Russian Federation included, are peaceful, mutually beneficial and create prosperity for both parties. I think there is totally wrong approach towards China, and maybe the United States of America should take a bigger role in finding a way to settle this.

G. Cutmore:

Very briefly, as we wrap up here, maybe I can get just two or three comments on what makes you optimistic that things will be better in 2020 and the world will have improved from where we are today. Very briefly, Lord Mandelson.

Rt Hon. Lord Mandelson:

I was once a politician. I am not a politician anymore, but I was once a politician, and the definition of a politician is somebody who is inherently optimistic. You have to be optimistic as a politician because you think you can improve things and create a better life for people. I still feel that politics is capable of doing that. It is capable of doing that, although does not always deliver, unfortunately. However, I think we are going to continue to live in an age that will be governed by economic and social liberal values. An economic liberalism that supports, essentially, the markets and the free flow of trade, people, goods, and ideas, as I have said, but also socially liberal values as well, in which we respect individuals, we champion their rights, we do not want to see them, however different they

may be, oppressed, either by majorities in the population or by governments, their institutions, or the police.

I think those values at the heart of both our economy and our society are ones that we should prize, sustain, and invest in, because I have not yet to date, during my lifetime or in my reading of history, seen any viable alternative to them. An alternative was tried, tested, and failed here in this country, and I do not think there will be any turning back of the clock in this country to that era. We must make those values work in the interests of all. That is essentially the politician's job, to make sure that markets are a source of growth and prosperity that is then more fairly and equally distributed as a result of the policies that politicians pursue. When you have those two things in sync and in balance, then you have a well-working economy and a good, decent society.

O. Deripaska:

It is human nature to be optimistic. Technology is there. We have an understanding of our problems, although we have wasted almost five years in a struggle to use the same solutions. We have, as the Lord Mandelson said, seven years ahead of us where we can deliver. It will be based on our performance, and I believe in the people who are around us.

G. Cutmore:

I have one final question, and it is a self-interested one. I have an 11-year-old daughter. In seven years, she will be 18. I hope that she moves into a successful and rewarding career. If I am to advise her as to what courses she should do in higher education in order to ultimately have that rewarding and successful career, what direction should I steer her in? What kind of course should she take? Should she be a banker, should she be a scientist, should she be an engineer, should she be a politician, or should she maybe a Russian oligarch? Although I am not sure there are courses for that! But, gentlemen, what would you advise me as we wrap up?

Rt Hon. Lord Mandelson:

I would go for science and engineering. Nothing against the arts and humanities; I was once British Secretary of State for Universities and I championed those pursuits. However, I think that we need more, not less, science; more, not less, engineering, if we are going to find the technological solutions that we need to give ourselves a better life. I would also throw in some languages. I know that nowadays everyone speaks English, on a good day, but I think that science laced with linguistic skills – something I never, I am afraid, succeeded in teaching myself – would be the best, I think, all-round package for your daughter.

O. Deripaska.

I agree: science. Plus, work with her in the garden. Try to help her to understand that if she makes something with her own hands, it will be much more valuable for her.

G. Cutmore:

Gentlemen, thank you very much indeed for the free career advice, and thank you very much for helping us to understand that the world will be a better place in 2020. Thank you, everybody, for joining us for this special CNBC conversation.