

Advancing Enterprise 2005

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Speech by Martin Wolf CBE, Associate Editor and Chief Economics Commentator, Financial Times at Advancing Enterprise 2005.

The international economic system.

I hope you all noticed the note of strong optimism in Alan Greenspan's speech, which is very encouraging for the world, though a bit depressing for people in my profession, since journalists love crises.

I have the privilege of introducing and chairing the session on the global economic environment. To my great pleasure, we have on the panel three of the policy makers I have most admired: Mervyn King, Governor of the Bank of England; Bob Rubin, who was a very distinguished US Treasury Secretary; and Jean-Claude Trichet, and since I was not introduced, I am Martin Wolf and I work at *The Financial Times*.

I thought I'd just introduce the topic briefly by giving an overview of the issues that these three distinguished gentlemen are going to resolve in slightly under an hour. If they do not achieve this, then they have failed. First, what is going on in the world? Secondly, what is working? Third and most important, what is not working? And fourth, what does that mean policy-makers have to fix? And all this I'm going to cover in about four minutes.

First, what is happening? I think the big lesson we have obtained from the morning's sessions is that there are two things going on at the same time. They are inter-related but in some ways they are also distinct, in the sense that one might have happened without the other.

The first of these processes is what we call globalisation, which is simply the integration of markets across frontiers. That is itself driven by two things: technological change and the global move towards the market - the process we call liberalisation, both at the border and just as important, internally. On technological change, I'd just like to add one thing to what was said this morning. For much of the last two centuries, the reduction of transport costs was the driving element. But in the last 20 or 30 years, it has not been so. We are living in an age in which the driving element is communication and information technology, and that has changed the nature of the globalisation process.

The other thing that is happening is, in my opinion, perhaps even more fundamental: the rise of Asia, or more properly, the "return of Asia". East and South Asia contain more than half of humanity. These were the centres of innovation and economic sophistication for much of the last two thousand years. The European blip is now coming to an end (in that I include the European offshoots on other continents). We here have benefited from the European blip but we are probably close to the end of it. We should get used to a very different world. And just to indicate how quickly we should get used to it, I would point to one incredible fact: between 1999 and 2004, Chinese exports almost tripled, from \$200 billion to close to \$600 billion

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a year. China is already the third largest exporter in the world. I think it's inconceivable it won't be the biggest quite early in the next decade.

Second, what is working? Trade liberalisation is working. We have the most open trading system the world has ever known. Multi-national corporations are working: on every indicator, the integration of corporate activity across the world is stunning. Movement of ideas and information is working: 24-hour capital markets work. And, of course, the movement of skilled people, which we've discussed this morning, is working.

Third, what is not working? Capital flows to emerging market economies are not working very well. The simple and depressing truth is that we have not been able to generate sustained net capital flows from rich countries to poor countries. Every time large flows have begun, we have ended up with a crisis. This is not a problem with portfolio purchases of equities or foreign direct investment. It is a problem with debt-creating flows, which have been extraordinarily unstable. Debt-creating flows are rising very rapidly at the moment. Historically that has been the precursor of a financial crisis. The second thing that isn't working, which is partly the result of the first, is that, to balance up the world economy, the English speaking countries, in general, and the US, in particular, are running virtually all the current account deficits in the world. The balancing up of demand and supply in the world has required this. If Dr. Greenspan is correct, the question we have to ask ourselves is who is going to be doing the additional spending to offset the contraction of net US borrowing that he foresees.

Finally, what needs to be done? We have to find a way of getting capital flows working sustainably and on a large-scale to the countries with the biggest opportunities. We are failing to do this. In order to prevent such a capital inflow, which they regard as very risky, Asian countries have accumulated well over a trillion dollars in additional foreign currency reserves in the last three years. Moreover, because they are so frightened of the consequences of capital market integration, China and India, the countries, on which we are focusing today, do not have open capital accounts. So how are we going to achieve this sort of capital flow from rich countries to poor ones? I want to hear from the panel how we are going to create a world in which capital flows to the poor, not to the rich, and in which we have a stable system for managing that flow? The IMF has become irrelevant for this purpose. Do we know how to do this or do we not? I fear at the moment we do not.

With that introduction, let me turn to the first of our speakers, Mervyn King, Governor of the Bank of England. Mervyn.

Ends.