Sustaining global growth: a strategic approach to development

The OECD highlights the importance of country-led strategies and effective aid in order to achieve global growth

By Angel Gurría, secretary-general, Organisation for Economic Co-operation and Development

> The OECD has substantial expertise in promoting capacity for countries to succeed in the global economy

The Organisation for Economic Co-operation and Development (OECD) has cooperated with the G7, and then G8, from its inception by providing expertise and intellectual input and by carrying out tasks mandated by the leaders. Since Germany hosted the G8 in 2007, this cooperation has strengthened considerably. Work has been stepped up to address the major global challenges.

The OECD's contributions cover an extensive range of issues, including investment, environment, employment and corporate governance policies. But one long-standing area of work with the G8 is development. In fact, since the OECD's establishment, development has been an integral part of its own mission to build a stronger, cleaner and fairer world economy. The OECD has established a reputation for its expertise on the drivers of development and its objective assessments of member countries' aid efforts through peer reviews. Moreover, the OECD plays a key role in assuring transparency and accountability in the aid system.

The OECD's 50th anniversary celebration, which will begin later in 2010, is an opportunity to reflect on the progress it has made and on what remains to be done. This is also a special year for development, because many of the donor commitments have targets for 2010, and it is only five years until the 2015 target to achieve the Millennium Development Goals (MDGs).

Development merits a new impetus

The decade prior to the financial crisis witnessed a rapid pace of development: two thirds of African countries had per capita income growth of 3 per cent or more for several years. Nonetheless, further progress is required to meet the MDGs. Moreover, the global financial and economic crisis has at best stalled and, more likely, set back what progress has been made. However, with the right policies and institutions and with external finances harnessed to complement the domestic resources of developing countries, there are grounds for optimism that the MDGs can be achieved by 2015.

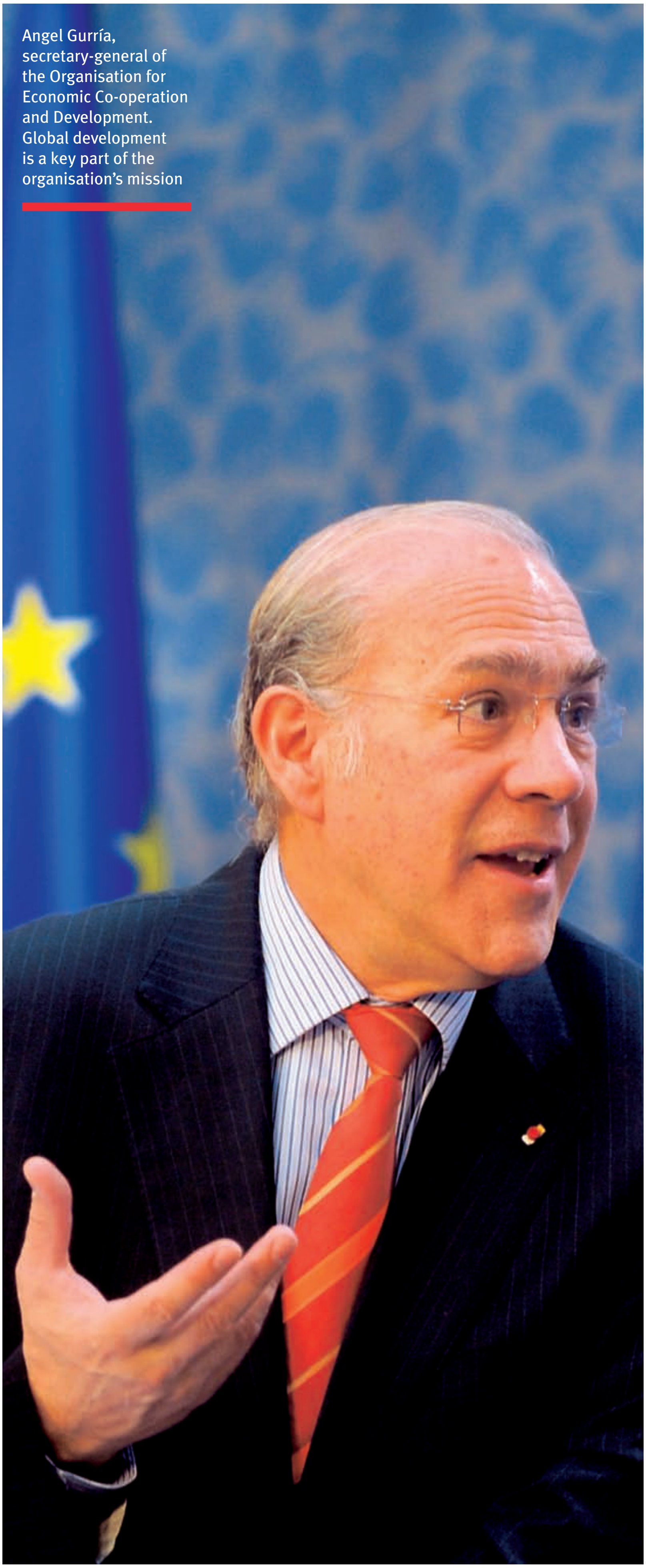
But what policies and institutions are conducive to development? How, for instance, did Korea, which had the same per capita income as the Cote d'Ivoire in 1960 and as Brazil in 1980, sustain a consistently high growth trajectory to become a middle income economy within a generation? Empirical investigation of the diverse country experiences suggests that education, social cohesion and sound policy governance are some of the prerequisites to support and attract investment, spur innovation and sustain growth – the most powerful driver of poverty reduction. A detailed understanding of the layers of this 'onion' remains limited, however.

There is a need to reflect on the experiences of developing countries to draw the lessons on how to mobilise domestic resources better. Conventional wisdom regarding effective development policies must be reconsidered, with an open mind.

The OECD has substantial expertise in supporting development and promoting capacity for countries to succeed in the global economy. This expertise lies in many specific domains, including taxation, the promotion of a favourable investment climate, regulatory governance, the fight against bribery and corruption, gender inequality and education, and science, technology and innovation, to name a few. The OECD is a source of knowledge on these and almost all other areas of public policy, making it the ideal place to understand the linkages between different policy areas and development.

Gender inequality, for example, is an area worthy of expanded coordination and policy sharing. Gender equality and empowered women are powerful catalysts for multiplying development efforts, and investing in women has a strong impact on poverty and on growth. Fifteen years after the ground-breaking fourth United Nations World Conference on Women in Beijing, it is timely to reflect on what has been achieved, to learn from what has worked well and to identify and urgently address the remaining gaps and challenges. Without progress toward gender equality and the empowerment of women, the MDGs cannot be achieved.

At the same time, it is important to ensure coherence between policies in G8 and developing countries. Openness is fundamental to growth. No country has achieved sustainable growth in the long run without the expansion of trade flows. But this is easier said than done. Low-income countries often lack the capacity – be it in terms of policies, institutions or infrastructure – to exploit the opportunities presented by more open markets and to trade their way out of poverty. Programmes such as the Aid-for-Trade Initiative have been successful in helping poor countries develop this capacity and overcome their supply constraints.



Angel Gurría, secretary-general of the Organisation for Economic Co-operation and Development. Global development is a key part of the organisation's mission

Taxation is another policy domain that is crucial for sustained development. Taxation provides governments with the funds needed to invest in development. In the longer term, it offers an antidote to aid dependence by the poorest countries and a predictable fiscal environment to promote growth. Taxation is also integral to the good governance agenda. By stimulating discussion between states and their citizens, the taxation process is central to more effective and accountable states.

Aid expenditures rose in 2009

In addition to developing countries' domestic resources, aid will remain vital to meet the MDGs. The good news is that most donor countries have maintained their commitments and are on track to meet 2010 aid targets. New OECD figures show continuing growth in development aid in 2009, despite the most severe economic downturn in a lifetime. However, the specific commitment made by the G8 at its 2005 Gleneagles Summit to increase aid by $25 billion by 2010 has, according to OECD calculations, fallen well short.

A key issue is aid prospects in the next five years. Aid represents a lifeline for hundreds of millions of the poorest people in the poorest countries. It also represents an investment in the emergence of effective and functional states around the globe. Aid is an investment, not charity.

> "Most donor countries have maintained their commitments and are on track to meet 2010 aid targets"

The tough fiscal environment underscores the need to make greater progress in boosting aid effectiveness. Here the G8 can lead by example, by accelerating the implementation of the Paris Declaration and the Accra Agenda for Action. In this respect, the decision to establish a G8 accountability mechanism to implement and monitor progress, with a report to be delivered at the Muskoka Summit, is very welcome.

The OECD is involved in this work. For example, it is contributing to the development of the methodology and statistical means for monitoring G8 commitments on development. It is also pushing forward with its work on measuring and communicating development results. The OECD has designed methodologies for tracking cross-country aid fragmentation.

To conclude, a strategic approach to development must embrace several elements. First of all, a renewed commitment to work in support of country-led strategies and domestic resource mobilisation is vital, as are rising levels of official aid in fulfilment of existing pledges. This aid should complement other development finance sources, such as private and voluntary finance. Second, efforts to enhance and ensure aid effectiveness need to be strengthened. A third critical element is to understand better what constitutes effective development policies at country level and internationally. By sharing its rich policy experience and establishing mechanisms that help countries learn from each other, the OECD is aiming to give a new impetus to development. Only by working together and by leaders making a deliberate, politically courageous effort will the MDGs be met by 2015. ◆

By Dr Tarek Kamel, minister of communications and information technology, Egypt

An emerging platform for a new economy

A decade ago, in the wake of the dotcom bubble and with emerging markets' information technology and communications infrastructure lagging, cyberspace was nearly an afterthought. Today, it is the home to a vibrant economy, and in the years ahead it will grow in importance to rival traditional economic channels including retail shops, sea lanes and airways.

For those of us in emerging markets, then, the questions are stark: Are we prepared for a full-scale shift to cyberspace as a concurrent venue for our developing – and hopefully prospering – economies? Are we prepared for an environment in which the internet is a platform for economic opportunity beyond the high-tech sector?

Securing this environment is crucial to the world's future, especially in a reality in which emerging economies are still grasping the benefits of advanced technology and the impact it can have on a broad socioeconomic agenda.

Building this kind of environment requires forward-looking, reliable infrastructure as well as a foundation of good governance. While many countries have made progress on this front, there is significantly more to be done.

Capturing this platform in developing countries

Presence in cyberspace requires a platform of advanced governance policies, regulations and initiatives that promote an enabling environment. Promising economies can play an important role in initiating and leading global efforts that address the issues attendant to cyberspace. The proven success of the World Summit on the Information Society process, which assisted in building national and regional information and communications technologies (ICT) across the world utilising multi-stakeholder approaches, gives us the confidence that developing economies have the will to create a strong footprint in cyberspace.

Indeed, collective global endeavours are a must – coordinated policy development, collaboration and standardisation of internet-related policies are of vital importance and must receive high priority at the national level and on an international scale. These global policy outcomes must address the challenges inherent in the future's digital economy – with security topping the list.

Without doubt, trust – the fundamental lubricant of the knowledge-based economy – is premised on security. Users and active participants in this economy must feel that the internet is as secure, that it is always available and that its presence, though unseen, is as a real and predictable as their physical environment.

Readiness is a second issue of priority for building the potential of a widespread online economy – both as a technical matter and as a public awareness imperative. A robust online economy tomorrow requires dedicated preparation today. If we build resilient, secure internet infrastructure and we educate our populations on the potential of this tool for improving their lives and livelihoods, then a more mature and impactful cyberspace will emerge. But in many cases, the technology must come before its widespread application. This requires forward-looking leadership from our governments.

By readiness of public awareness, I mean widespread trust in the network and cyber activity in its capacity to act as an extension of the traditional economy, and even to build its own, very real economy. Critical to public readiness are questions of privacy rights, data security, intellectual property rights and the safety of online transactions. This imperative is only possible where the rule of law is ensured and respected.

In this context, a close study of our legal systems and cyber laws requires that we continually ask whether the laws that govern cyberspace live up to our expectations. Is this governance adequate and ready for the future? Is this legal infrastructure shaped to facilitate a dynamic transition to the cyber world, one that will undoubtedly present opportunities and challenges we cannot imagine today?

The importance of addressing these concerns will surely drive the internet economy and rapid internet adoption in developing countries. Without building a cyberspace conducive to trade, the emerging world will lose the enormous potential afforded by online commercial endeavours.

With coordinated focus and commitment to addressing these challenges – security and readiness of infrastructure and public awareness – emerging economies can harness the speed and global presence of cyberspace to build unimaginable new economic opportunities.

What's more, this revolution will not only spur economic growth and diversification, but will also bridge social, geographic, demographic and educational gaps among and within emerging markets.

Egypt's progress toward online achievement

Since 2000, the government of Egypt has worked on creating a legislative environment supportive and essential to an enabled cyberspace. These measures included a comprehensive telecommunications act, an electronic signature law, an intellectual property rights law and legislations related to child online protection. Today, Egypt has, in the pipelines, draft laws covering cybersecurity, privacy, and access to information.

Concurrently, Egypt was careful to develop its state-of-the-art telecom infrastructure and a world-class telecom regulatory framework, while simultaneously moving forward with efforts to ensure that its network remained secure, resilient and robust. Early on, it introduced various internet and content-related initiatives to include multiple segments of society, focusing especially on access affordability and content availability. As a result of these efforts and commitment to an online world, Egypt's internet usage is growing at a rate exceeding 20 per cent annually.

Egypt's leaders also looked to ensure that public awareness and understanding accompanied the country's technological capacity. Primary among these efforts is a national programme to promote internet safety (particularly among children and teenagers), implemented in collaboration with the Suzanne Mubarak Women's International Peace Movement. This international initiative is championed by Egypt's first lady, Suzanne Mubarak, and is a joint effort with top international and local partners from government bodies to non-governmental organisations and technology innovators.

Extending this work to ensure a safer online culture for our children, a priority that is critical in any emerging knowledge society, Egypt launched the country's Integrated Child Online Safety Agenda. Efforts to address this issue have fostered international coordination – Egypt is currently chairing the International Telecommunication Union Council Working Group on Child Online Protection.

Today's dynamic youth are a key stakeholder in this better future – they own the skills, energy and creativity to provide the solutions to the challenges a globalised, internet era introduces. This concept needs to be vigorously promoted. They need to be inspired, act, react, and be part of building Egypt's information society and economy. For this to happen, empowerment and strong conviction in their powers is necessary.

On another note, Egypt's efforts to introduce world-class ICT infrastructure and security legislations has supported its economy and placed it on the world map of outsourcing. Egypt's ICT-enabled services and applications capabilities and large, skilled, multilingual workforce have attracted the business of global giants.

Still the opportunities inherent in ICT advances extend far beyond today's returns and the present economy – Egypt is aggressively venturing into cutting edge technologies such as cloud computing that will require continually advancing infrastructure and legislative environments that will in turn translate into still-higher economic returns.

Egypt has also been responding carefully to cybersecurity issues. One major project is the Computer Emergency Response Team (CERT), which works in coordination with various national bodies and the group's international counterparts. In this capacity, the CERT has successfully managed and avoided incidents on the national and international levels in cooperation with American, European, South-East Asian, and Arab partners. Furthermore, Egypt's observer status in the Organisation for Economic Co-operation and Development's Information and Communications Policy Group allows it to work closely with G8 countries on policy and strategy issues.

Moving forward with collaboration and trust

Trust and capability have been developed at home, but Egypt's initiatives to develop ICT and its potential as a socioeconomic enabler go far beyond its borders. Egypt made a commitment to the region and to Africa a decade ago. In 2010 and 2011 Egypt will invite African and Arab countries to a number of regional meetings to raise awareness, share knowledge and expertise, and work on policy and strategy development and implementation.

In conclusion, allow me to confirm that advances in internet technology can close the gap between industrialised and developing economies. With the right agenda and framework, knowledge-based economies will flourish in the developing world and strong intellectual property rights and valuable innovation will extend from these countries to create a more prosperous, truly global online economy.

But to achieve these ambitions, trust is instrumental. To gain this trust, global good governance must prevail, and soon enough, countries and regions must unite and work closely together to build a positive culture for a more secure cyberspace. ◆

Prospects for global growth

The rate and pace of economic recovery have varied across the globe, with the US leading the way in the industrial world and China showing strong growth in the emerging economies

By Robert Fauver, former G7/G8 sherpa, United States

As leaders gather for the G8 Muskoka Summit on 25-26 June, 2010, the short-term prospects for growth are stronger than earlier anticipated. The latest forecast by the International Monetary Fund (IMF) suggests that for 2010 "world output is expected to rise by about 4.25 per cent, following a 0.5 per cent contraction in 2009". As such the risks appear to be on the downside.

Monetary policy has been expansionary and has included unprecedented injections of liquidity in many countries. In addition, fiscal policy – especially in industrial countries – has provided strong stimulus to the recovery process. Budget deficits are running at unsustainable rates in many countries.

In the industrial world, growth recovery has once again centred on the US economy, with Europe and Japan lagging behind the rebound. In the emerging economies, China leads the pack with a surprisingly strong 10 per cent real growth projection for 2010. India is close behind, expecting 9 per cent real growth.

While the short-term growth outlook is encouraging, other parts of the situation are not. For the first time in history, the recovery in the industrial world is lagging significantly behind that of many of the developing countries. Historically, the developing world has depended on the industrial world's demand for its exports in order to provide growth stimulus. Now the recovery is led by the developing world. One real question is whether the developing world can be an engine of growth for the global economy. Are developing countries' propensities to import – based on domestic demand growth and not export growth – significant? And are their import volumes large enough to promote global growth?

> "One real question is whether the developing world can be an engine of growth for the global economy"

On the external side, the sharp recession did produce a much-needed reduction in external imbalances in the industrial world – particularly in the United States. The US current account deficit, which was running at an unsustainable rate of 6 per cent of gross domestic product (GDP) prior to the global recession, dropped to 3 per cent in 2009. Most of this improvement is likely temporary since it reflects a slowdown in imports due to the recession in the United States. Forecasts indicate that the deficit will start growing again this year. Germany's current account surplus narrowed a bit in 2009 to a little less than 5 per cent of GDP, but it is projected to rise again this year and will approach 5.5 per cent next year. China's surplus rose to a staggering 11 per cent of GDP in 2007, but narrowed to a little less than 6 per cent in 2009. It is projected to rise steadily in coming years. Clearly the recession has reversed some of those imbalances. The question is whether this is a temporary reversal or a structural one.

The recession has led to very large fiscal and monetary efforts to stimulate domestic demand – especially, but not exclusively, in the industrial countries. Rebalancing the world economy must also include a return to sustainable fiscal positions in many countries. And it must include the eventual withdrawal of the extraordinary monetary easing that has taken place in the past year or so.

It is almost axiomatic to suggest that one way or another, global imbalances will adjust over time. Rebalancing of external accounts will, in the end, occur whether or not governments undertake separate or coordinated policy actions. Eventually, market forces will react to unsustainable deficits or surpluses and bring about rebalancing through foreign exchange market reactions to the situation. A rebalancing not generated by government tends to result in an overshooting of exchange rate movements and a relatively dramatic rebalancing process caused by relative price changes.

Without appropriate policies coming from China, the adjustment of imbalances in the industrial world will be very slow – or will move toward greater imbalances. China needs to foster greater appreciation of its exchange rate. It has witnessed a relative devaluation of the yuan during the recession as the dollar – to which the yuan has been linked – has moved downward against the yen and the euro. In addition, China could help the global adjustment process if

it shifted away from export-focused growth and substituted domestic demand growth. At first blush, this seems to be the aim of authorities with their recent stimulus policies. However, China's marginal propensity to import due to domestic demand is quite low. Most of its import demand is related to production for export. Hence the role of China as an engine for global growth or external rebalancing based on domestic growth is not very significant.

Collectively, governments can decide – perhaps through the G8 or G20 process – that coordinated demand management could foster smoother adjustment than either going it alone or letting markets bring about the adjustment. Deficit countries need to foster policies that encourage domestic saving over domestic spending. This holds for private and public sector decisions about savings and spending.

It is important that in most economies government stimulus needs to be withdrawn very carefully. None of the deficit countries should move precipitously to rebalance their savings and consumption. The unwinding of government monetary and fiscal stimulus in the industrial world too early would risk damaging the emerging yet still fragile economic recovery.

Surplus countries, on the other hand, need to foster policies that encourage consumption over savings. This policy switch will be tricky to implement, especially as the output gaps in several major developing countries is closing rather rapidly. This situation argues for a modest tightening of monetary policy in some key developing countries. A rise in interest rates, if coupled with an easing of capital controls, would also foster exchange rate appreciation, which would help facilitate the adjustment of imbalances.

Cars at the Volkswagen factory's Autostadt customer reception centre in Germany. Although VW has been affected by the worldwide financial crisis, many of VW's brands reported growth, especially in China

For the industrial countries – most of which are still in the fragile recovery stage – the withdrawal of monetary support is less urgent and more precautionary than a move needed to cool off domestic pressures. While the unwinding of recent extraordinary monetary ease may be warranted, some important degree of ease is still necessary. Additionally, continued monetary ease will likely prevent unwanted exchange rate appreciations. A gradual removal of fiscal stimulus is perhaps more important for many industrial countries, in order to rebalance savings/spending propensities. In particular, a public announcement of a medium-term strategy for reducing fiscal deficits could stabilise expectations in many of the industrial countries.

If the weak recovering European countries move too quickly in implementing an exit strategy, their fragile recovery will quickly weaken further. Their contribution to global rebalancing should be to run trade and current account deficits as opposed to relying on export surpluses to help domestic growth as they have for the last decade.

For the United States, a serious plan for the medium-term reduction of the fiscal deficit is critical to a sustainable recovery. The Obama administration's medium-term budget submissions indicate that government spending will average something on the order of 26 per cent of GDP for the next ten years. Historically, federal revenues have averaged 19 per cent of GDP. This 8 per cent of GDP deficit is unsustainable and will need attention. ◆

Vision 2050: performance based on sustainability – innovations for sustainable lifestyles

The growth in world population and the steady increase in the average standard of living call for a radical reassessment of our production methods and consumption. Currently, private consumption accounts for a large part of global greenhouse gas emissions. A decisive reduction in carbon dioxide emissions could therefore be achieved by encouraging people to change their consumption habits. Through its many products and services, industry has tremendous potential to make positive contributions to social challenges such as climate protection and resource conservation.

Henkel's ambition is to combine product quality with responsibility toward people and the environment, thus driving change toward innovative, sustainable consumption. With regard to its laundry and home care brands, Henkel refers to this combination as "Quality & Responsibility." Through this logo, which has been printed on our laundry detergents and household cleaners since 2008, we aim to make it easier for consumers to reach responsible purchasing decisions.

People will always consume. The essential thing is to make this consumption as sustainable as possible. Henkel's aim is to develop ever better products and solutions. These are designed to reflect the three dimensions of sustainable development – ecology, economy and social progress. The company is thus setting a new quality standard in the market. "Performance based on Sustainability is the decisive innovation driver of the new decade and a strategic competitive advantage," says Christian-André Weinberger, Corporate Senior Vice President and Global Chief Marketing Officer in the Laundry & Home Care business sector.

To achieve this, Henkel has defined five overarching focal areas: energy and climate, water and wastewater, materials and waste, health and safety, and social progress. A central feature of our commitment is that each new product contributes to sustainable development in at least one of our focal areas. We consider it essential to act responsibly throughout the entire value chain – from the selection of raw materials to manufacture, and to the use of our products in the home. Henkel has been using ingredients based on renewable raw materials for decades. The washing active substances (surfactants) in our laundry detergents and household cleaners, for example, are derived from renewable raw materials such as palm kernel oil. Since 2003, we have therefore actively participated in the Round Table for Sustainable Palm Oil (RSPO). In 2008, we were the first company worldwide to purchase certificates for sustainable palm kernel oil – for our Terra Activ brand products. As a result, palm kernel oil from sustainably managed plantations was integrated into the supply chain for the production of surfactants for the first time. Building on this, we are now planning the next steps to align our overall product portfolio to certified sustainable palm oil and palm kernel oil by 2015 at the latest.

The combination of "Quality & Responsibility" is the innovation driver of the future

"We see the combination of 'Quality & Responsibility' as a powerful innovation engine to drive ahead the development of intelligent solutions and products," explains Weinberger. "Performance based on Sustainability" therefore applies to 100 percent of the product concepts in our innovation pipeline. The focus is not necessarily on the development of green products, but rather on offering more intelligent solutions. The basis for this is an exact analysis of our value chains. For all our laundry and home care product categories, we have carried out life cycle analyses on sample products to enable us to identify suitable starting points for improvements. Sustainable consumption can only be achieved if we all work together. Communication with our consumers is therefore just as important as the development of sustainable products. Through the "Quality & Responsibility" logo printed on our laundry detergents and household cleaners since 2008, we aim to make it easier for consumers to reach responsible purchasing decisions. The logo indicates to consumers that, by buying this product, they will not only obtain superior performance but a sustainable solution as well.

To drive this change Henkel also draws on its many years of experience and its leading role in the field of sustainability. Our innovations are used daily in millions of households, and therefore offer great potential to actively help to shape the sustainable lifestyles of tomorrow. We work to develop products that enable consumers to make more efficient use of energy and water. Our laundry detergent Persil ActicPower, for example, is based on technology that enables enzymes to act at low temperatures, and therefore performs effectively even at 15 degrees Celsius. And our dishwasher detergent Somat 9 delivers excellent cleaning performance at just 40 degrees Celsius. Energy savings of up to 20 percent are achieved over comparable programs that require temperatures of 50 or 55 degrees Celsius. Henkel brands around the world also repeatedly set new benchmarks. Purex Complete 3-in-1 Laundry Sheets have taken laundry detergent concentrates to a new level in the USA. Thanks to the 10 times concentrated detergent formula, one laundry sheet contains all of the detergent, softener and anti-static needed for one wash cycle and the following dryer cycle. The low weight and volume reduce the carbon dioxide emissions associated with transport by almost 70 percent, and the Laundry Sheet refill pouch generates 45 percent less packaging waste – in both cases, in comparison with a bottle of a conventional laundry detergent concentrate.

Working together to achieve responsible, innovative and sustainable consumption

Making consumption more sustainable is certainly an immense challenge. If millions of households saved energy by washing their laundry at lower temperatures, this would already make a significant contribution to climate protection. Every individual consumer can do his or her part in everyday life by developing an awareness for climate protection and acting accordingly. This is why Henkel is now using Quick Response (QR) codes and the mobile Internet. We thus offer consumers the possibility to use their mobile phones even when buying our brands to find out how they can use laundry and home care products in the most environmentally compatible way – and save money at the same time. These tools enable the company to talk directly to consumers and to encourage them to adopt sustainable usage methods and habits. QR codes are small black and white patterns that contain a link to mobile-enabled websites. Mobile phones with a camera and loaded with the appropriate free 'app' (application software) can "read" these QR codes and therefore retrieve the associated mobile internet pages. The mobile internet is already widely available and user numbers are increasing from day to day – especially among young consumers. By providing QR codes on its product packs, Henkel is able to meet a growing demand for the immediate availability of query-specific information.

The worldwide introduction of the Quick Response codes is a logical progression of "Quality & Responsibility" – the sustainability initiative of Henkel's Laundry & Home Care business. The QR code and its innovative technology presents a further opportunity for Henkel to promote innovative and sustainable consumption worldwide. Since the beginning of 2010, Henkel has been gradually introducing the new QR codes on all the company's major international laundry and home care brands, to make it as easy as possible for consumers across the world to make responsible decisions when purchasing and using products.

Henkel's efforts have repeatedly earned excellent ratings – from many different national and international institutions and from its customers. In 2010, the company has already received two major German awards: Henkel's Laundry & Home Care and Cosmetics/Toiletries business sectors were recognized with the Best Innovator Award for their successful and sustainable innovation management. And Henkel proved once again that its name is synonymous with sustainability by winning the Best Brands Award. Based on criteria such as environmental alignment, resource conservation, social engagement and employee responsibility, the high-caliber jury selected the best sustainability brand in Germany – with the majority deciding in favor of Henkel. Henkel is also successful on a global scale. At the most recent World Economic Forum in Davos, Corporate Knights – a magazine focusing on responsible business practices – presented its list of the Global 100 Most Sustainable Corporations. Henkel took 11th place as the second best German company.

In a rating of DAX 30 companies published in January 2010 by the sustainability rating agency Sustainalytics, Henkel also achieved an excellent second place. In 2009, Henkel was again included in the Dow Jones Sustainability World Index (DJSI World) as the sustainability leader in the Nondurable Household Products sector. Within this index, Henkel is also among the companies that made most progress in sustainable development during the period under review.

"Performance based on Sustainability is the strategic successfactor to stay in the lead and drive change towards innovative sustainable consumption"

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Generating jobs, sustaining growth

The world may be seeing signs of economic recovery, but unemployment is still high. The G20 leaders need to find and act on the right policy frameworks to boost employment and ensure sustained global growth

By Juan Somavia, director general, International Labour Organization

Global unemployment is still at record levels – and that is just the tip of the iceberg of discouraged job seekers, involuntary, temporary and part-time workers, informal employment, pay cuts and benefit reductions. However, the signs of economic recovery are becoming clearer and some countries are growing at a brisk pace. Yet for working women and men, and for many enterprises in the real economy, the recovery has not yet begun.

One year ago, as the global financial and economic crisis was in full force, the International Labour Conference agreed on a global jobs pact to guide the response of the International Labour Organization (ILO) to the worst worldwide jobs crisis in more than 60 years. It has helped shape a period of policy activism that has eased the worst effects of the crisis. In 2010, the test is to accelerate a jobs-rich recovery and get onto a path of strong, sustainable and balanced growth that leads to the goal of decent work for all.

The G20 leaders in Toronto will review progress on the commitment they made in Pittsburgh in September 2009 "not to rest until the global economy is restored to full health and hard-working families the world over can find decent jobs". They asked G20 ministers of labour and employment to assess the evolving employment situation, review ILO reports on the impact of policies implemented, report on any necessary further measures and consider employment and skills development policies, social protection programmes, and best practices so workers can take advantage of advances in science and technology.

In April 2010, the G20 labour and employment ministers met in Washington. Their statement offers broad policy consensus on what has to be done in the field of employment and social protection policy: "We want to ensure that productivity gains are shared with workers as rising living standards; that work is a reliable path out of poverty for all of our people; that the fundamental rights of workers are respected; and that social dialogue is fostered."

> "A central challenge is finding policy frameworks that generate patterns of growth to yield full, productive and freely chosen employment"

The ministers offered five sets of policy recommendations to be considered by G20 leaders:

- accelerate job creation to ensure a sustained recovery and future growth;
- strengthen social protection systems and promote inclusive active labour market policies;
- place employment and poverty alleviation at the centre of national and global economic strategies;
- improve the quality of jobs for everyone; and
- prepare workforces for future challenges and opportunities.

The G20 ministers recommended coordinated efforts to make employment growth a priority because strong growth of jobs and incomes in many countries will reinforce global demand, which in turn will create more jobs. Moreover, growth in employment and incomes, particularly in countries with many low-income households, is indispensable to strong, sustained and balanced global growth.

Securing the jobs recovery and fair globalisation

The approach advocated by the G20 ministers also reflects a global policy consensus expressed in the ILO Global Jobs Pact and Decent Work Agenda, which the ministers described as "valuable resources" for designing further measures to address employment and social protection systems.

Accelerating a Job-Rich Recovery in G20 Countries: Building on Experience, the report submitted to the G20 labour ministers by the ILO, showed that overall, policy responses will have created or saved 21 million jobs in G20 countries by the end of 2010 – the equivalent of 1 per cent of total employment for the whole G20 – as a result of both discretionary fiscal stimulus and the working of automatic stabilisers. Stimulus measures have created or saved millions of jobs, even though they have been resisting a strong tide of job destruction.

As global growth revives, governments might be pushed into pulling out of stimulus packages before the still fragile recovery takes firm root. But a premature exit would lead not only to lower employment by 2015, but also to worse deficits than would be the case with a more measured return to fiscal balance.

For the critical years ahead when globalisation could be improved, a central challenge is finding policy frameworks

A human resources development and employment centre in China: the country has benefited from stimulating labour demand through public spending and fiscal stimulus

that generate patterns of growth and development to yield full, productive and freely chosen employment and decent work. Even before the financial crisis, many countries experienced frequent periods in which growth did not produce enough decent work to match the growth of the labour force and support improved living standards and reduced poverty. Now the world needs to accelerate a jobs-rich recovery and implement policies that support stronger job creation and poverty reduction for the long term.

Such a new growth strategy will require a finance sector that meets the needs for investment, innovation, trade and consumption. It is thus vital to adopt financial policies and regulations that encourage resource flows and allocations – including development cooperation – toward long-term productive investment by sustainable enterprises and the creation of decent work opportunities.

Stimulating labour demand – through fiscal stimulus, public spending, reduced working hours and hiring subsidies – has proven efficient. Australia, China, the Republic of Korea, the Russian Federation, Saudi Arabia and South Africa adopted average fiscal stimulus in the range of 3 per cent to 4 per cent of gross domestic product in 2009. Hence, the rebound since mid 2009 was particularly strong in these countries. A reduction in working hours, commensurate with wages, helped retain workers in Germany and, to a lesser extent, in Canada, France, Italy, Japan, Mexico, the Netherlands, South Africa, Spain, Turkey and the United States.

Extending social protection – by providing a basic social protection floor and by targeting public employment programmes in low-income countries – has shown strong results during the downturn. China has announced plans to achieve universal coverage of basic healthcare by 2020. India is expanding its health protection for low-income households and is developing a national old-age pension scheme. Temporary benefits for families have been introduced in Germany and on a permanent basis

> “Stimulating labour demand – through fiscal stimulus, public spending and reduced working hours – has proven efficient”

in Argentina. Brazil continued to expand the coverage of its conditional cash transfer programmes, as have Mexico and Turkey. India’s National Rural Employment Guarantee Scheme – possibly the largest such programme – is providing 100 days of employment at the minimum wage to 43 million low-income households in 2009-10. A similar programme in Mexico created more than half a million jobs in 2009.

In 2010 and 2011, private and public policies must converge to strengthen credit flows, investment, sustainable enterprises and decent work creation and to reinforce what is still a fragile recovery.

The employment and social protection policies deployed by many countries interact with each other and contribute to improved macroeconomic performance and a stronger employment intensity of growth. A continued focus, in all countries, on productive investment, sustainable enterprises, inclusive labour markets, wide coverage of social protection and basic labour rights, and the elements of the decent work agenda, will usher in a more stable, stronger world economy with a robust social dimension. ◆

Gibraltar – EU domicile meeting the highest international standards

Gibraltar is a self-governing, economically successful and self-sufficient Overseas Territory of the United Kingdom within the European Union. It has its own Parliamentary system of Government and legislation, and is thus a distinct legal, executive and political jurisdiction.

In 2008 Gibraltar was ranked (by Jane's Country Risk) as the fifth most prosperous state measured by political stability, economy and security. As an integral part of the European Union Gibraltar's financial services licensing, regulatory and Investor and Depositor Compensation regimes are fully compliant with EU requirements and thus it enjoys passporting rights throughout the EU in all financial services matters including banking, investment services, insurance, insurance mediation and reinsurance. Gibraltar-licensed financial services firms therefore have access to a market of close to 500 million people. Gibraltar's financial services sector contributes approximately 30% to the GDP of Gibraltar.

Significant recent political developments include a new constitution which has modernised our political relationship with the UK to take it out of its historical colonial context and historic direct dialogue and co-operation agreements with Spain.

International initiatives

Gibraltar's successful finance centre is based on the Government's conviction that it must remain squarely within the mainstream of international consensus. In line with its commitment to transparency and effective exchange of information (www.oecd.org) Gibraltar has to date negotiated and signed 18 Tax Information Exchange Agreements with OECD member countries, is on the G20-instigated OECD 'white list', and is currently negotiating similar agreements with other countries.

The Government of Gibraltar has a long track record of proactive and constructive engagement with international standards-setting initiatives. In October 2000, for instance, Gibraltar was the first jurisdiction to volunteer to undergo the full range of Module 2 assessments by the International Monetary Fund on banking, insurance, investment services, and trust and company management.

In the resulting Report the IMF noted that Gibraltar was "at the forefront of the development of good practices". It further noted that Gibraltar was "one of the first jurisdictions to have introduced regulation and supervision of the company and trust services business," and highlighted the fact that "Gibraltar has been a pioneer in the supervision and regulation of Professional Trusteeship and Company Management services providers".

The IMF concluded that Gibraltar's regulator, the Financial Services Commission ('FSC'), "carries out its duties diligently and has an intimate knowledge of the institutions under its supervision…. The results of our assessments indicated that supervision is generally effective and thorough and that Gibraltar ranks as a well-developed supervisor. The regulatory regime across the industry meets most international standards and accords with best practice."

The IMF again endorsed Gibraltar's robust regulatory environment and anti-money laundering regime in a second round of assessments reported on in 2007. In all the areas of banking, insurance and anti-money laundering / counter-terrorist financing Gibraltar was judged to have met the international standards demanded of any reputable finance centre and, indeed, to be ahead of many onshore, and much larger, finance centres.

The IMF concluded that "the Gibraltar authorities are concerned with protecting the reputation and integrity of Gibraltar as a financial centre, and are cognizant of the importance of adopting and applying international regulatory standards and best supervisory practices. Gibraltar has a good reputation internationally for co-operation and information sharing". The IMF Reports on Gibraltar are available online at www.imf.org, www.gibraltar.gov.gi and www.fsc.gi.

Significantly, Gibraltar was among the first wave of countries and territories to be granted Qualified Intermediary status by the United States Internal Revenue Service, signifying that Gibraltar's know-your-customer rules were regarded as acceptable.

The economy

Gibraltar has an extensive and diversified service-based economy, the principal contributors being tourism, financial services, port operations including bunkering and online gaming. It is a global or regional leader in every economic sector in which it operates.

Gibraltar's economy is entirely self-sufficient, its fiscal position is strong, and sustains a high standard of living and public services.

Although Gibraltar has not been totally exempted from the current global economic recession and financial crisis, these have not adversely affected its fiscal position or prevented continuing growth of our economy. In the year to 2009, the economy grew by 6% (to £850 million), the Government's budget remains in substantial surplus (c. 6%), net public debt is very low at just 15% of GDP and taxation rates, both corporate and personal, continue to fall very significantly.

The Government has announced that it will introduce an across-the-board, low corporate tax rate of ten per cent with effect from 1 January 2011, down from the current 22%. Gibraltar does NOT tax capital gains or investment or pensions income.

Employment levels continue to rise to record levels, and this is coupled with very low unemployment.

The Hon Peter Caruana, QC
Chief Minister of Gibraltar

Making globalisation work

G20 members must leave behind narrow nationalism and embrace their sovereign duties if the G20 is to rise to meet the challenge of globalisation

By The Right Honourable Paul Martin, former prime minister of Canada

As Canada and Korea prepare for this year's G20 summits, the question arises as to the measure by which the world's new steering committee should be judged. The answer is its capacity to relieve the gridlock on those issues it inherited from the G8 and that go to the very heart of globalisation.

Three that immediately come to mind are the global financial crisis, climate change and food security.

The G20 came into being because the world has changed. Its members are members because they have power and position, but they also have responsibilities. In short, multilateralism must mean more than a camouflaged concern only for one's national interests. It must recognise the needs of others including those who are not at the G20 table.

This is certainly true in the case of the financial crisis. What the world is experiencing now is not simply another economic downturn. It is one that mutated into a perfect storm because at its core was a banking crisis of unprecedented global reach. The world cannot afford another one. To put it starkly, the recession of 2008-09 has done its damage and the United States, the United Kingdom and, indeed, too many countries must now deal with decimated balance sheets. None of them can afford to engage in their own massive deficit fight only to have their efforts unravel because another bank liquidity crisis has appeared on the horizon.

While the G20 made progress initially, it is now bogged down as its members appear unable to come to grips with one basic point. In a world of seamless capital markets, there are no borders; if those are the rules of the game the bankers play by, then those must be the rules of the game the referees referee by as well.

At present, the G20 story is one of headline-grabbing differences within and between the US and Europe. What this has led to is the failure to implement the key measure, which is determining the core equity standards and leverage ratios for G20 financial institutions. Given the vacillation between the political players on the wider host of regulatory issues, the most urgent need today is to establish these core standards and ratios forthwith, all the while working out the other differences before memories of the financial crisis fade.

In short, the time for the G20 to draw the line in the sand is now. What the disputants should remember is that they are not there to speak only for themselves, but also for the 173 countries that are not at the G20 table.

The G20 is a global steering committee, not a small club of the self-interested. The question to ask is not how to keep New York, London or German bankers happy, but how to keep the global economy healthy.

As in the case of many issues, what is important are the signals the G20 sends to the world's negotiating tables. In the case of climate change, this meant Copenhagen where, suffice it to say, the wrong signals were clearly sent.

> Multilateralism must mean more than a camouflaged concern only for one's national interests

Historically, the prime responsibility for carbon dioxide emissions lies with North America and Europe. But this does not mean that all of the G20 members do not have an increasing responsibility as their emissions increase to Bangladesh, the Philippines, Central America and Africa, for instance – regions of the world that are virtually innocent of the causes of climate change and yet whose poor will bear the greatest cost in terms of creeping deserts, flooding and famine.

The next climate change summit will be held in Mexico in November-December 2010. Rather than a last-minute, ad hoc meeting between the US, China and a few others as was held in Denmark, let the G20 prepare now to send the proper signals well ahead of time so that the Mexican meeting has a chance to succeed.

Furthermore, if after five meetings of the G20, not to mention countless expanded meetings of the G8, the differences between the developed and emerging economies show as few signs of being bridged in Mexico as they were in Copenhagen, then clearly the world will have

> If the G20 seeks to do its job, it is here in the definition of sovereignty where the battle lines will be drawn

a problem that extends far beyond climate change to the very heart of the effort to revive true multilateralism after its lengthy siesta.

In terms of food security, the United Nations predicts that within a generation the demand for food will increase massively as the globe's population soars by a third and growing, affluent populations intensify the pressure on agricultural resources already depleted by drought and major imbalances in the food chain.

The year 2008 was the canary in the coal mine. The price of the world's staples tripled in price and developing countries' budgets were decimated as they struggled to import food, and famine spread throughout Africa and Asia. The world has been warned.

So where does all this leave the world as the Canadian and Korean meetings approach?

What is common to the financial crisis, climate change and food security, and what in the end will determine whether the G20 meets the test, depends on whether the leaders of the member countries show a capacity to rise above the political comfort of narrow nationalism – because making globalisation work requires a consensus that cannot be squared with the traditional definition of sovereignty.

In short, the parochialism of rigid borders makes no sense, not if one wants to make globalisation work. The Treaty of Westphalia established the definition of national sovereignty in 1648. That was a long time ago and it was all about sovereign rights. However, the world has evolved and the definition of sovereignty today must now include sovereign duties.

Clearly, if the G20 is to do its job, it is here in the definition of sovereignty where the battle lines will be drawn, for with the designation of the G20 as the world's new steering committee, the debate is no longer what will replace the G8. It is whether any steering committee can succeed under the old rule of sovereign rights without sovereign duties.

The future of globalisation is the great issue of our time. The issues of the financial crisis, climate change and food security are all manifestations of the need to make it work better. Quite simply, how the G20 deals with them will provide an indication of how it will deal across the board with the interdependence of states in the future.

The question the G20 has to answer is, now that there will be not one or two, but, for the first time, five or six giant economies at the table, what must be done to ensure that this works to everyone's benefit. The answer does not require genius, but it does require a level of international cooperation that improved in Pittsburgh but failed the test in Copenhagen.

If the G20 is to succeed, it must ensure that its dialogue takes place not just on the basis of the sovereign rights of its members, but on the basis of their sovereign duties as well. Indeed, this could be the most important role the G20 has to play as the world's steering committee. ◆