Encouraging and sharing good economic governance

The global impact of financial crises means that no country is immune. But by committing to good governance and participating in groups such as the G20, countries can work together to restore growth

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

The crisis is not over; it has merely changed its locus. The world is still living under the threat of worsening conditions in the weakest economies. There are certainly signs of improvement in global economic conditions. The pace of growth is accelerating in the United States and in Japan. In the US, growth should continue to strengthen as confidence among both businesses and households continues to pick up. Although emerging economies are going through a modest and, in some cases, perhaps desirable, slowdown, they are expected to pick up the pace going forward. However, the US should address the 'fiscal cliff' and instead, find a negotiated way forward on deficits and debt.

The situation in the euro area represents a Damoclean sword hanging above the world economy – the single biggest downside risk to the outlook. Adjustments in the euro area are now taking place in an environment of slow or negative growth and deleveraging, prompting risks of a vicious circle involving high and rising sovereign indebtedness, weak banking systems, excessive fiscal consolidation and lower growth. To make things worse, political instability is now adding to euro area woes.

Under these conditions, the world requires good, effective governance to meet complex global economic challenges. In the short run, this means that, through collective action, the world needs to restore growth, strengthen the banking sector and fix the sovereign debt crisis in the euro area. In the long run, it implies building strong, sustainable and balanced growth and identifying new sources of growth at the global level. As a general objective, good economic governance should result in enhanced and effective regulations that pave the way for a rules-based global economy.

Conditions for international cooperation have indeed changed dramatically, and thus so has the setting where the global economy is being addressed. This derives from the rebalancing of the global economy. Analysis by the Organisation for Economic Co-operation and Development (OECD) estimates that emerging and developing economies could account for close to 60 per cent of world gross domestic product (GDP) by 2030. The establishment of the G20 at the leaders' level and the decision at the 2009 Pittsburgh Summit to transform it into the premier forum for economic cooperation are welcome consequences of this trend. The G20 is giving new players a stronger voice in decision-making processes at the global level.

This should help craft more inclusive global governance down the line. Emerging economies have become critical players in globalisation – not only through their integration into international trade flows, but also in their capacity as major international creditors, foreign direct investors and centres of innovation. Their concerns are increasingly shared and encompass issues such as financial stability and coordination, management of capital flows, and non-discrimination in and freedom of investment. The enforcement of property rights and patent laws will also likely gradually become critical issues for these countries.

Uncertainties ahead

The establishment of the G20 has been a welcome step towards overhauling the international economic architecture. But what has been its track record so far? Given its policy achievements, it is fair to acknowledge that the G20 has registered some key critical successes. Governments successfully limited the impact of the 2008 crisis, thanks to a large, swift and coordinated policy response crafted at the 2009 London Summit that was unprecedented in history. G20 members have collectively refrained, so far, from raising new barriers to investment and trade. The G20 has also made tangible progress in a relatively short time on food security, for instance through the implementation of the Agricultural Market Information System (AMIS), which fosters greater transparency and regulation.

In the realm of financial regulation, taxation and anti-corruption, the G20's track record has been equally positive so far. For instance, at the request of G20 members, the Global Forum on Transparency and Exchange of Information for Tax Purposes hosted at the OECD delivered significant progress with respect to the implementation of international standards in the realm of tax transparency and exchange of information. The OECD was proud to support the successive presidencies of the G20 in achieving positive outcomes in these various strands of work.

This spirit of cooperation and coherence not only serves the G20 in many policy areas; it is also an important contribution to effective international governance

The ambitious agenda set out by the G20 encapsulates many of the critical issues for the future of the world economy. Green growth, the priority of the incumbent Mexican presidency, is obviously one of them. It constitutes an extremely valuable attempt in the current context to identify new, intelligent and environmentally friendly sources of growth. Here again, the OECD was glad to help Mexican authorities frame, refine and substantiate their policy agenda and priorities in the context of their presidency of the G20.

Lujiazui financial district in Pudong, Shanghai. The G20's record on global financial regulation and anti-corruption has so far been positive, says the OECD

On a more institutional note, another positive outcome of the G20 is that intergovernmental organisations have been encouraged to work together in the frame of G20 mandates. This has created synergies and maximised the effect of their individual expertise and experience. The OECD has cooperated closely with a large number of international organisations in delivery to the G20 countries – with the Food and Agriculture Organization and others on food security, the International Labour Organization on employment issues, the World Bank on development and green growth, and the International Monetary Fund through the framework for growth. This spirit of cooperation and coherence not only serves the G20 in many policy areas; it is also a genuine and important, albeit perhaps underestimated, contribution to effective international governance.

Foundations for growth

However, the G20 must still demonstrate that it can craft meaningful consensus to transform the world economy durably and enhance the sources of growth, once the crisis is left behind. In particular, it needs to build the foundations of strong, sustainable and balanced growth as envisaged in its eponymous framework. The world is not yet there. Whether the action plan endorsed at the 2011 Cannes Summit under the Framework for Strong, Sustained and Balanced Growth will deliver the expected boost to growth and a rebalancing of the global economy remains to be seen. Indeed, the Cannes Action Plan established a series of commitments in the fiscal, monetary and structural policies that need to be fulfilled. In Mexico, this plan will be revised and strengthened to feature clear policy actions to foster growth. The Los Cabos action plan should thus be a fully fledged 'Compact for Growth and Jobs'.

The OECD has made specific recommendations to the G20 in this domain, notably in the realm of growth-enhancing and job-creating structural reforms – such as well-targeted product and services market liberalisation and active labour market policies. But effective implementation of the commitments and collective accountability is also needed. This would involve an appropriate monitoring of policy action undertaken by countries under the Cannes and Los Cabos action plans and the establishment of an enhanced accountability framework under the Mutual Assessment Process (MAP): countries' commitments should be made more specific, quantifiable and associated with well-defined metrics to lend themselves to a proper assessment. In other words, the G20 should feature mechanisms for candid and systematic policy-sharing.

The MAP should be turned into a genuine peer-review mechanism whereby countries' commitments would be collectively discussed and agreed, and, after a given period, examined and reviewed by peers on a non-adversarial basis. Peer review is the OECD method par excellence. We are ready to share our experience on this front.

The G20 is at a critical juncture. Different regions of the world and particularly Europe need to address their own vulnerabilities and avoid contributing to the deterioration of the international economy. The world also needs a credible plan for growth that, in acknowledgement of different economic conditions and priorities for fiscal consolidation, puts the policy instruments for growth at the core of this debate.

We need a strong message, with credible and measurable commitments to reignite growth. This is what we expect from leaders meeting in Los Cabos – a turning point to have the G20 summits move from managing the crisis to one that could be called the 'Summit of Growth'. ■

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Time for a policy rethink

Great leadership is called for if governments are to meet the challenges created by slow growth, rising unemployment and an increasing income gap emerging throughout the world

By Juan Somavia, director general, International Labour Organization

The G20 leaders meet in Los Cabos at a time of great political, economic and social uncertainty. The disconnect between the preoccupations of people and global political elites is deepening, with many damaging consequences for democracy, the rule of law, social cohesion and human development. International cooperation and policy coordination are becoming more difficult as countries turn inward just when that cooperation is needed most.

Unemployment and inequality

The global employment outlook for 2012 and 2013 is bleak. Growth is slowing in several major developing and emerging economies, many of which must maintain a brisk pace of expansion to meet the demand for decent jobs from a growing working-age population. The largest advanced economies face the legacy of a major crisis in the main centres of finance. This legacy includes levels of unemployment and inequality that have not been seen since the Great Depression.

About 56 million fewer workers are currently employed worldwide than would have been the case if pre-crisis growth had not been interrupted. Outright unemployment is up by 27 million. Labour force participation has fallen, removing a further 29 million. Out of the more than 200 million jobless, 75 million are between 15 and 24 years old. Informal employment remains prevalent in many developing countries. A full 900 million people of working age are unable to earn enough to lift themselves and their families above the $2-a-day poverty line. Had pre-crisis trends in poverty reduction been maintained, this figure would now be 55 million lower.

There is a high risk, with a weak recovery and some parts of the world in recession, that unemployment will continue rising in 2012 and 2013, mainly in advanced countries. In emerging and developing countries, employment in conditions that will reduce poverty may fail to keep pace with the still increasing growth in the working-age population. The world needs at least 40 million more jobs every year over the coming decade and, to get back on track towards halving world poverty, these jobs must earn more than poverty-level wages.

Inequality is on the rise. Between the early 1990s and the mid 2000s, in two-thirds of the countries for which data exist, the total income of high-income households expanded faster than that of low-income counterparts. Similar trends have occurred in other dimensions of income inequality such as labour income vis-à-vis profits, or top wages vis-à-vis wages of low-paid workers. In 51 of the 73 countries for which data exists, the share of wages in total income declined over the past two decades. Likewise, during the same period, the income gap between the top and bottom 10 per cent of wage earners increased in 70 per cent of the countries for which data exists. Furthermore, within the top 10 per cent, it is the top one per cent and even top 0.1 per cent who have seen the most rapid rise in their incomes.

Substantial swings in exchange rates, portfolio investment, trade and continued turbulence in the financial sector are damaging the real economy. There is growing acknowledgement that volatility in economic performance and income and other forms of inequality are interconnected. Businesses and workers are under pressure in many countries to maintain competitiveness by raising productivity and reducing costs. However, such efforts by real economy actors can be too easily nullified by large, sudden fluctuations from turbulence in financial markets.

Threats to recovery call for a rethink

Governments and central banks are still cleaning up the wreckage of the 2008 crash and have yet to complete the reform agenda for a safer financial system. The lightly regulated and internationally open systems of several major financial centres – one of the proudest creations of the new globalisation – failed spectacularly at huge cost to working families all over the world. Countries that resisted the pressure to liberalise suffered less damage and are recovering faster.

Despite massive injections of liquidity to shore up the international banking and financial system, funding of investments in the real economy and in job creation is weak. It is the responsibility of the International Labour Organization (ILO) to point out that the volatility endemic in financial globalisation is seriously damaging productive investment and employment creation. Reforms to the finance sector to make it serve the real economy are urgently needed.

The eurozone countries most exposed to finance market pressures as a result of high ratios of government deficits and debt to gross domestic product are excluded from international markets despite massive injections of liquidity by central banks to bolster bank's balance sheets. They are cutting public expenditure and increasing taxes. However, they are making little or no progress, as output and incomes are falling, too. Despite cuts in labour costs and far-reaching reforms to try to raise their competitiveness, their main export markets elsewhere in Europe are also not growing.

> ***A full 900 million people of working age are unable to earn enough to lift themselves above the $2-a-day poverty line***

Competitive deflation is spreading with the same disastrous consequences that trade protection created. Attempting to pay off financial debts by introducing austerity policies is piling up a social debt that is rapidly becoming unsustainable.

The spillover effects of the eurozone crisis are spreading worldwide and weakening the prospects of emerging and developing countries that had bounced back relatively rapidly in 2010 and 2011. Volatility in exchange rates and capital flows, partly a consequence of easy monetary policies in advanced countries, are damaging growth and jobs in several emerging countries. Food and fuel prices remain elevated,

In the United Kingdom, austerity measures brought in by the government have been met with protest from public-sector workers

with at least some part of the price rises being a consequence of cheap credit looking for speculative gains.

Weakening export markets, especially in Europe, are a further worry for the growth and development plans of developing and emerging countries.

There is growing awareness of the need to counter the risk that adverse feedback loops between nervousness concerning sovereign debts in some countries and regions and a still fragile financial sector will interact to stymie recovery in productive investment and decent work creation. It is time for a policy rethink.

Tools for recovery and development

With the flow of commerce, finance and information much more open internationally, national policy levers are less effective at steering economies to high levels of employment. The coordination of policies internationally is vital for recovering the collective capacity of governments to meet the people's priority need for decent work. To discuss, plan and monitor international economic cooperation: this is exactly what the G20 summits were created to do.

More tools are needed in the macroeconomic policy toolbox alongside fiscal, monetary and financial policies. Building on the 2009 ILO Global Jobs Pact, countries should consider introducing a package of measures specific to their needs. These measures include:

- investment in infrastructure and skills development;
- support for small and medium-sized enterprises;
- public employment services;
- work-sharing schemes;
- targeted support to industries;
- employment guarantee schemes;
- minimum wages uprating; and
- well-designed social protection floors to fit national situations.

Governance of globalisation requires the collective action of governments. This is especially urgent now.

The ILO, representing employment and labour ministers, business and unions, is acutely aware of the risks of a collapse in global demand. Each job is both a cost to an employer and spending power to a household. If employers are forced into cutting jobs and wages to survive, it diminishes consumption, which leads to weaker purchasing orders and more trimming of labour costs. The public budget suffers, too, from reduced tax revenues and pressures to support families and communities no longer able to earn a living.

Imagination, not ideology

Today's multipolar world economy means that no one country or region can lead on its own. Nevertheless, global political concern about jobs is a unifying theme for international action that can help the international system kindle recovery and transition into a sustainable strong and balanced path of global development.

Organising collective action requires leadership and connecting to people's priorities; imagination, not ideology. It requires dialogue, negotiation and a capacity to see ways of accommodating different interests in a package of agreed actions that moves everybody forward. Today's priority all around the world is ensuring that working women and men, especially youth, can earn a living through decent work. ■

CREATING JOBS AND GROWTH THROUGH INNOVATION

TECHNOLOGY BASED INNOVATION AS AN ENGINE FOR THE COMPETITIVE POSITIONING AND SUSTAINABLE DEVELOPMENT OF THE ECONOMY

To know more about the Start-Up Initiative, visit
www.startupinitiative.com

To join forces or discuss working on similar growth and job-creation partnerships, email
startup@intesasanpaolo.com

OUR RESPONSIBILITY

The Intesa Sanpaolo Group is today among the top banking groups in the euro zone and the leading banking group in Italy with over 19.6 million clients served by 7,700 branches and present in over 40 countries.
As a responsible European corporate citizen with a global reach, we have a duty to be part of the solution in these times of volatile and increasingly interdependent global markets.
Working for years on an international scale, we experience innovation as a key strategic factor and technology as an enabler to boosting growth and creating jobs. That's why we decided to establish ourselves as a European catalyst, connecting the dots of innovation scattered throughout the ecosystem.
That's why we made innovation a key commitment in our interaction with clients, start-ups, peers and the society, and that's why we created the Intesa Sanpaolo Start-Up Initiative.

OUR INNOVATION COMMITMENT

Our commitment to innovation has so far taken on many forms, such as:
• financing businesses through the Nova+ programme by providing favourable credit lines for innovative enterprises;
• advising on EU programmes through Intesa Sanpaolo Eurodesk which offers access to grant funding;
• networking with top research institutions to expose their most promising start-ups to investors and companies; and
• conducting equity investments through Atlante Ventures, our early stage funds dedicated to venture capital investing.

SOMETHING MORE - THE INTESA SANPAOLO START-UP INITIATIVE

In light of our commitment, we soon realized that a broader, scalable, and more collaborative solution needs to be found. As a result, two years ago, we successfully launched the Intesa Sanpaolo Start-Up Initiative, a comprehensive programme aimed at facilitating both equity financing and business relationships for start-ups.
Selected start-ups go through an investment readiness training. The best ones attend arena events where they can pitch to international investors and businesses, obtain widespread media coverage, and gain access to a rich network of partners providing key services and resources. The arena events are organized by sectors, which today include biotech, cleantech, ICT & Web, nanotech & materials, social ventures, electromechanics, and healthcare. The events soon extended their reach from Italy to other parts of Europe, including London, Frankfurt, and Paris, as well as the United States with its key hubs in New York and San Francisco.
The events then added specific industry arenas whereby start-ups from various sectors present technologies relevant to a specific industry such as agro-food, construction & real estate, fashion & design, and transportation.
More recently, through the EU's Competitiveness and Innovation Framework Programme our bank has been tasked to apply its Start-up Initiative process as a turnkey solution to boost start-up opportunities in the mobile technology sector across Europe.

THE INTESA SANPAOLO START UP INITIATIVE IN NUMBERS

Since the launch of the initiative in September 2009, we generated the following results:

20 Italian investment forums
14 International investment forums
1,200 Screened submissions
300 Trained start-ups
200 Finalist start-ups
3,000 Investor & Corporate attendees
1,500 Follow-ups with the start-ups
40 Success cases*

*) the Start-Up Initiative enabled this number of specific commercial, service and investment deals

THE POTENTIAL OF ONE – THE POWER OF MANY

Although solitude, dispassionate search, and deep reflection can produce amazing ideas and discoveries, it is the collaboration of many that constitutes the critical force behind their realization on a broader scale.
As we face the challenge of building lasting prosperity, we become humbly aware that just as the challenge is not the result of the actions of a selected few, potential solutions cannot be realized on a grand scale without the contributions of many.
The Intesa Sanpaolo Start-up Initiative has so far proven to be a successful model that facilitates investments in entrepreneurs, reduces investors' risk exposure, and acts as a platform to connect with other players. Although initiated and chiefly operated by our bank, its success rests on the shoulders of many, and its scalability depends on the collaboration with likeminded peers.
Through our global outreach, we have been most delighted to have successfully entered into several partnerships, including government trade & investment offices, international investment networks, business angel associations and some of the world's leading academic institutions that provide exposure to breakthrough technologies aimed at impacting humanity in a positive way.

VALUES – INGREDIENT TO LONG-TERM SUCCESS

As the leaders of some of the largest industrial nations gather these days in the corridors of insight, influence, and responsibility, it is as if the world comes closer for a few moments and is given the opportunity of discussing the many challenges afflicting mankind and exploring suitable solutions. As it comes to realizing those solutions, more often than not, technological innovation turns out to be one of the key drivers, and entrepreneurs the key protagonists in realizing them.
It is here, that the values which some of the most successful entrepreneurs live by come to mind: the high-spirited courage of starting something new; the essential requirement of challenging oneself; the dispassionate search for the right answer; the indefatigable passion to continuously improve; and a dependable commitment to pursue ambitious goals.
Relying on this value framework, we look forward to working with likeminded partners to help advance innovation as a key strategic factor and technology as an enabler of economic development.

THINK BIG, START SMALL, SCALE FAST

THINK BIG
to allow yourself to think global and regard the world as your playing field

START SMALL
to make sure that "it" works and that you know what it takes to roll it out

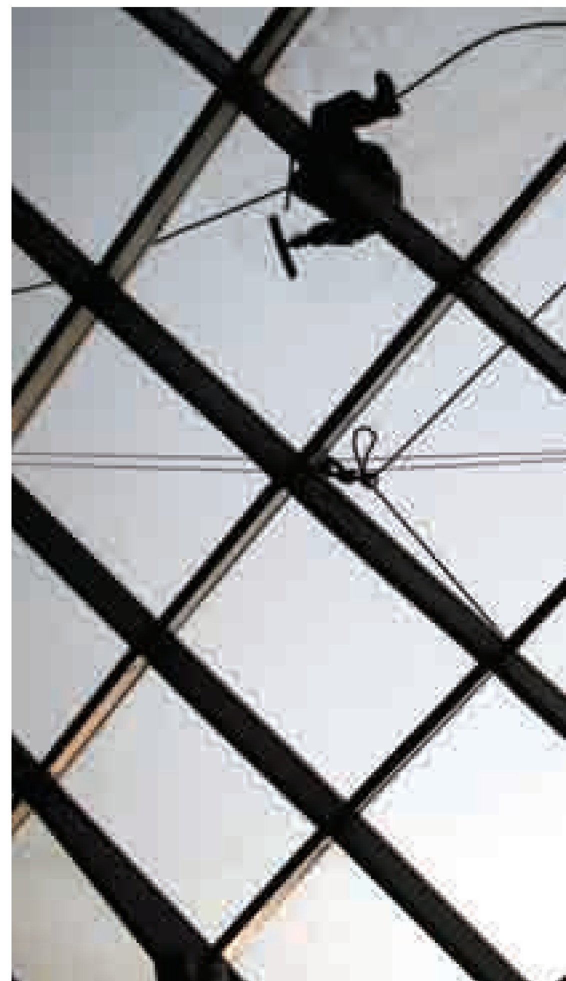
SCALE FAST
to grow organically, successfully, and sustainably

INTESA SANPAOLO

Strengthening social protection and economic development

Accessible and efficient social security systems have never been more important to protect vulnerable populations from economic uncertainty or natural disasters, and help boost growth in the long run

By Errol Frank Stoové, president, International Social Security Association



Social security makes a difference. It protects the population against the risks linked to old age, illness and parenting and is also a key element in sustainable economic development. Policymakers increasingly recognise that adequate social security benefits and services are a prerequisite for economic growth and not an impediment to it. Social security also supports social cohesion and strengthens family structures. Furthermore, by promoting better health and reacting effectively to natural disasters, the situation of the most vulnerable becomes more resistant to external shocks and interruptions to economic activity are minimised.

In order to fulfil this evolving role, social security has become truly dynamic. In many countries, not only has it managed to react rapidly to the financial and economic crisis by putting in place innovative and appropriate measures but it has also provided support to other policy measures, such as improving training and meeting youth employment objectives. Social security has acted as a social and economic 'shock absorber' in these difficult times.

The International Social Security Association (ISSA), which brings together 335 social security administrations and government departments from 157 countries, has responded to these challenges by promoting the concept of dynamic social security and supporting its members in putting in place appropriate measures. It has observed a number of positive experiences of this evolving role of social security. Many of its members have made significant efforts to extend and improve coverage to different sectors of the population in the past decade.

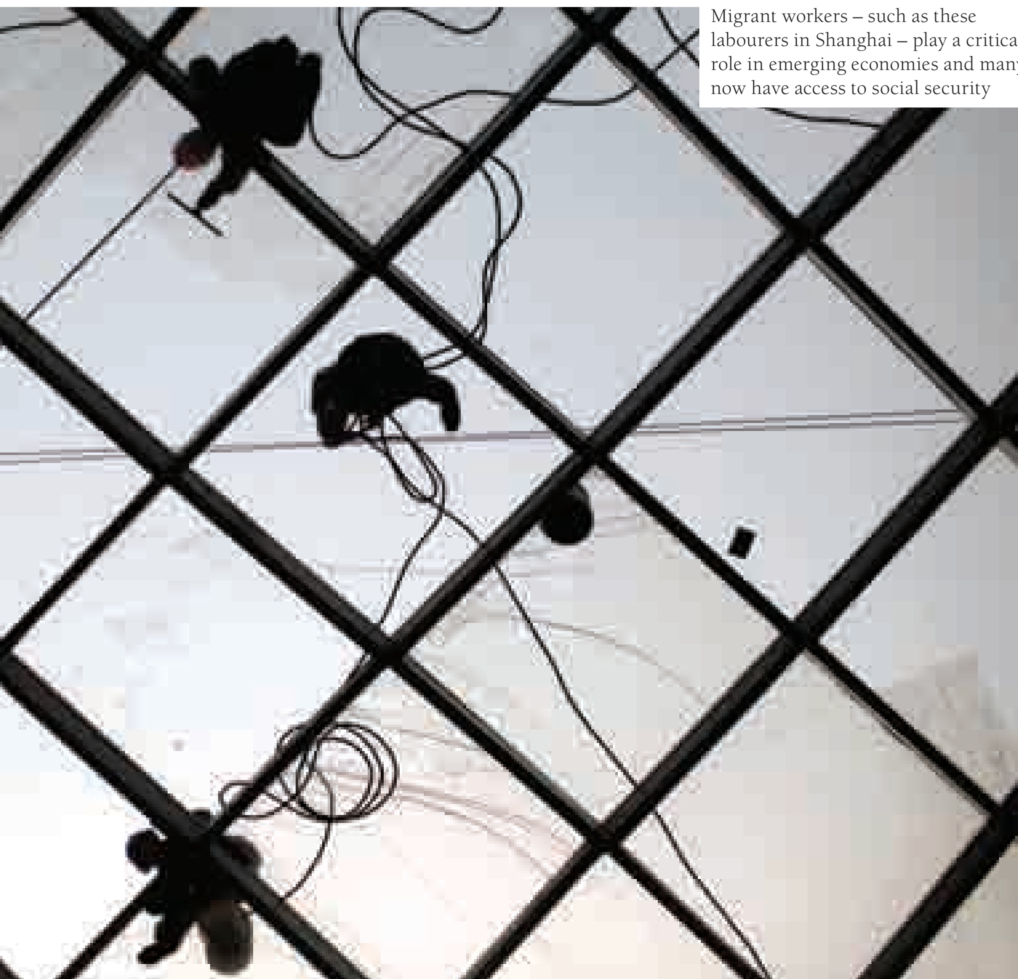
- In several countries in Europe and Asia, a system of partial unemployment insurance has ensured not only that skilled employees are kept in the workforce, but also that additional training has been delivered that is relevant for the labour market needs of the country.
- In the BRICS countries of Brazil, Russia, India, China and South Africa, a significant extension of coverage to previously excluded groups (such as rural populations and the self-employed) has been achieved, providing a strong anti-poverty lever and reducing inequalities.
- In Asia, social security has shown itself to be uniquely able to respond quickly and innovatively to natural disasters, ensuring that the affected population receives the benefits and services it needs.
- In Latin America, the large number of multilateral and bilateral agreements means that migrant workers are covered, thereby encouraging greater labour mobility and a better matching of supply and demand in the regional job market.
- In Africa, social security administrations have effectively used information and communications technologies to ensure that previously difficult-to-reach populations are now covered for a range of minimum benefits, including healthcare and old age benefits.

A growing use of technology

But challenges remain. The environment in which social security is operating is tough and constantly changing.

For this reason, social security administrations need to continually transform and improve how they operate in order to ensure that the benefits and services provided reflect today's globalised and dynamic world. Workers are more mobile, and migration within and between countries is increasing. Benefits should be appropriate and easy to understand, and delivery and financing mechanisms should be simple. Administrations have made huge steps in utilising information technology, with many administrations now on the cutting edge of providing e-services. Improved governance is another element in this pursuit of administrative excellence.

Social security is also increasingly working with other stakeholders to ensure that approaches are integrated and that there is less duplication of benefit efforts. For example, benefits from unemployment insurance schemes are increasingly structured to include elements essential to a country's employment objectives. Return-to-work



Migrant workers – such as these labourers in Shanghai – play a critical role in emerging economies and many now have access to social security

programmes are linked more closely to disability benefit systems.

By responding effectively to these challenges, social security has become an essential actor in ensuring socially inclusive economic development. Social security is increasingly considered an investment and not a cost. It provides an essential foundation for future development. In the current discussion of the right balance between austerity and growth measures, countries that have invested in social security have noticed immediate benefits: reduction in long-term and youth unemployment rates, improved social cohesion, maintenance of health levels and development of the human capital of young workers.

Cost-effective solutions

But what about the cost of social security? Historically some countries, concerned about the impact on the cost of labour, have hesitated to put in place or extend social security. But in the long run, the cost of not having social security is often higher.

Indeed, the positive externalities of such investment mean that the actual cost of extending social security is low. The management and administration costs of social security compare very favourably to those seen in private sector arrangements. In addition, social security benefits act as an economic lever, leading to more sustainable and robust economic development. Countries that have invested in social security – for example, partial unemployment insurance schemes that ensure that employees are kept in work and develop training – have recognised that it is an essential element of their economic growth strategy. Many G20 countries continue to invest in social security through innovative approaches backed up by strong political will and administrative excellence.

Social security will continue to play an important part in social protection and promotion of economic development. But dynamic social security will also evolve to respond to future challenges such as increasing life expectancy, the rise of non-communicable diseases and climate change. All this will occur against the backdrop of increasing scrutiny of the costs and benefits of social security, questions of intergenerational fairness, and an increasingly well-informed and demanding population.

Some countries have hesitated to put in place or extend social security. But in the long run, the cost is often higher

Many administrations have already put measures in place to anticipate these future changes through innovative and attractive programmes. In this context, the ISSA's role in promoting excellence in social security administration will continue to support the International Labor Organization's two-dimensional strategy for extending social security and putting in place a 'social protection floor'.

Without social security, future shocks are likely to seriously impede a country's economic development and threaten social stability. With the support of policymakers, social security is uniquely placed not only to ensure that the population is protected, but also to provide a sound base for continuing economic growth and strengthening social cohesion. The ISSA is pleased to note the importance of social security in many of the G20 countries and the increasing efforts made to extend coverage and improve benefit levels and services. ■

SPONSORED FEATURE

The economy of global trade

The largest economy in the world is no longer the economy of any one country

By Juan N Cento
President, FedEx Express Latin America and the Caribbean

We've reached a tipping point in how the world works. The largest economy in the world is no longer the economy of any one country – it is the economy of the global trade of goods and services. Countries that are making an impact in the world of global trade are those that are connected into the global mainframe, not those that operate within the silos of their national geographies.

This convergence has accelerated the formation of a single global marketplace where commerce, connection and confluence have come together to create the world's largest economy valued at $18.3 trillion[1]. There are a number of macroeconomic trends driving this change: an increase in the volume of manufactured goods, a growing middle class in emerging markets and the transition of developing countries from producing nations to consuming nations[2]. What is clear is that these trends have shifted the dynamics of global trade, reflecting an evolution in globalisation and changing how the world interacts.

The focus on emerging markets is particularly important today because companies are relying on the expansion of high-growth markets to compensate for economic stagnation in the developed world. Three years after the financial crisis, the balance of economic power has changed. Emerging markets, such as Brazil, China and India, continue to grow and provide important opportunities for trade and investment. These high-growth markets are now seen as sources of new consumer demand rather than as mere low-cost production centres. Rising consumption in Asia, fuelled by an expanding middle class, will produce a host of new opportunities for trade – in terms of their domestic market, but also to pave the way for the next tier of emerging markets.

The international business market is also being reshaped through new emerging trade trends. Rapid expansion in exports and imports between newly emerging economies, a redistribution of global supply chains that include emerging markets to drive competition, and a sharp rise in commodities and infrastructure trading powered by the development of emerging economies around the world have all been catalysts for change.

The growing and evolving global economy presents excellent opportunities for businesses worldwide, especially as the world is more connected than ever before

The opening of new trade corridors and the continued strength of international economic powerhouses such as India, China and Brazil have helped to drive global trade. The growing prosperity of these countries, as they take on an ever greater role as consumers and producers of traded goods, also opens up new opportunities for other developing countries such as Vietnam and Indonesia, as traditional manufacturing centers increasingly set up shop in new markets. A recent article in the *Economist* revealed that, in May 2010, Vietnam overtook China as the largest manufacturer of Nike shoes – a sign of the changes that have taken place and a signal of things to come[3].

Embracing the growing world economy

But global trade is not without its challenges. Economic and political volatility, borne out by the recent eurozone and U.S. debt crises, has led nations and regions to erect protectionist measures to safeguard the health of their local economies. But this only serves to stifle economic growth in developed and developing countries. Open access to capital, information, people and foreign markets offers the best hope for current and future prosperity for people around the world. At FedEx, we are guided by the principle that when individual countries enable trade, they provide benefits not only for themselves but also for other nations with which they trade. Improved market access, more efficient customs and better infrastructure and business environments offer enhanced opportunities for both importers and exporters.

Global trade is at the very heart of the FedEx business and our network is a critical enabler of the global supply chain. We believe that the growing and evolving global economy presents excellent opportunities for businesses worldwide, especially as the world is more connected than ever before, and continues to become ever more interconnected day by day. We cannot stop this trend – and neither should we want to – but we can harness the trend to strengthen our economic recovery, generate growth and create jobs.

The world faces grave challenges that threaten our economy, our communities and our businesses – but the dynamism and opportunities flourishing around the world should provide us with hope, not induce fear. Will it be difficult – certainly – but bold and strategic actions can restore our economic strength, anchor our future economic prosperity and create the growth our economy so desperately needs.

Global trade helps us to be globally competitive. And today, to be globally competitive, you need to be global in your mindset. Today, with access to the internet and access to FedEx, businesses can sell their goods and services to, and find their suppliers in, virtually any market around the world.

The world is changing rapidly. We cannot afford to turn away from global trade, and we cannot protect or insulate ourselves from the growing world economy. The future depends on it.

Footnotes

1 FedEx Connect Website – http://connect.fedex.com/gb/en/#global-trade
2 Source: FedEx Annual Report Blog Post – http://blog.fedex.designcdt.com/annual-report-2011-global-shipping
3 Source: Economist Intelligence Unit 'State of Global Trade' custom article. China is not about to be abandoned as a production hub: worker productivity is also increasing and the economy is shifting to higher-value-added industries. However, the wage differential does mean that nearby, lower-wage locations have become more attractive. In 2008, Tomy Takara, a Japanese toy company, announced that it was shifting 30 per cent of its Chinese production to Vietnam. In May 2010, Vietnam overtook China as the largest manufacturer of Nike shoes

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America's economic challenges and opportunities

With a difficult economic environment at home and new leaders to face across the table, US president Barack Obama could encounter a highly charged atmosphere as he meets the G20 members in Mexico

By Robert Fauver, former G7/G8 sherpa

The Los Cabos Summit is taking place this year in the most politically charged environment that has existed since the beginning of these summits. China is installing new leadership whose views are not well known. Voters in Europe have expressed their displeasure with austerity measures undertaken in the face of serious financial market conditions. A new socialist leader of France joins the group. Newly re-elected Russian president Vladimir Putin joins in. And US president Barack Obama faces a difficult economic environment for his own re-election effort. With popular sentiment turning against austerity efforts, it will be very important that leaders express solidarity in their joint efforts to promote growth and jobs.

In the United States, the economy continues to perform well below potential growth rates and is setting a record for the slowest recovery from a recession. Usually, the first and second years after a recession bottom will experience sharp real growth numbers – above potential growth rates – in order to reduce the gap between actual and potential gross domestic product (GDP). The current recovery has not experienced these normal strong quarterly growth rates.

The creation of jobs

Business investment has been extremely slow to recover from the recession. Some analysts attribute this to uncertainty over regulatory changes by the Obama administration – including healthcare reforms. Others point to the fact that consumers have been historically slow to recover their spending patterns and confidence levels. Both are holding back the rebound of real growth rates. The most important challenge for the American economy is the creation of jobs. Unemployment rates are historically high this far into the recovery. The only factor that has led to the decline in the unemployment rate has been the sharp reduction in labour-force participation rates – now at a more-than-30-year low. Fundamentally this represents workers who have become so discouraged with job opportunities that they have dropped out of the labour force. This smaller and smaller labour force gives the false impression of lower unemployment.

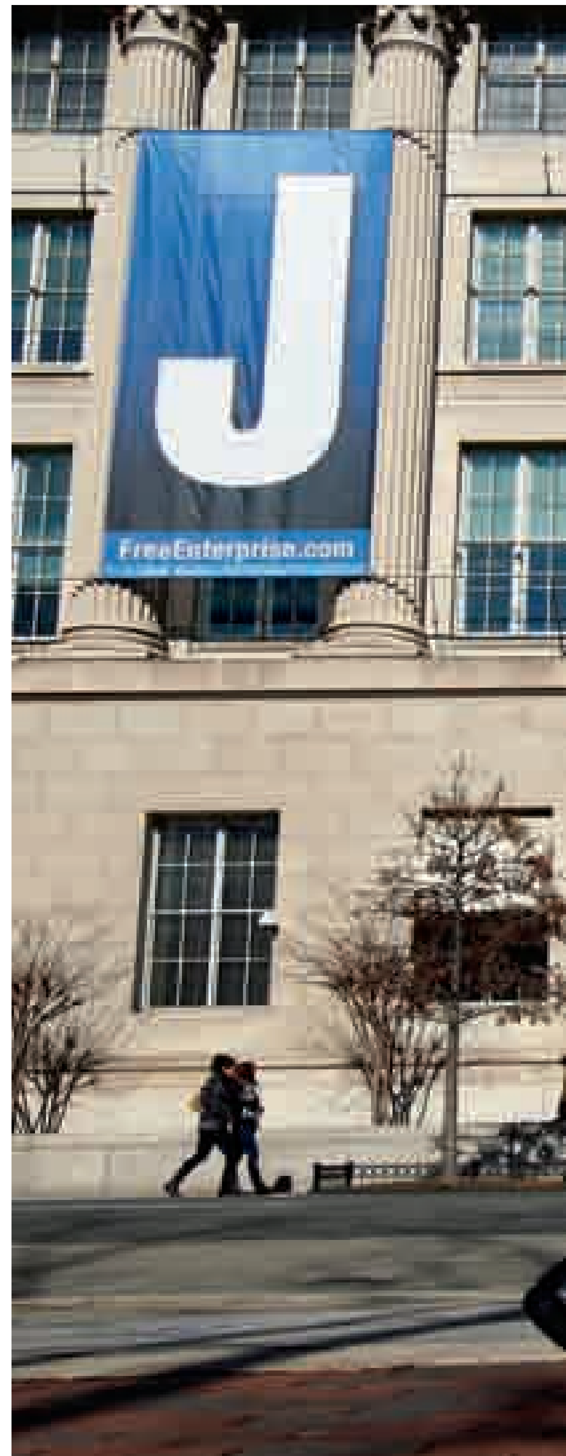
If the adult labour force participation rate stayed the same today as it was when the Great Recession ended in June 2009, at 67.5 per cent (it is now 63.8 per cent) the unemployment rate would be 10.9 per cent.

Political divide

Hence the most troubling problem facing the administration is the continued low growth in jobs. Firms facing lower productivity growth in recent quarters are likely to begin hiring new workers if consumer demand holds up in the coming months. But this is likely to be a slow path to job creation. Restoring business and consumer confidence remains the number-one problem in generating sustained real growth and hence job growth.

The political divide in the US prevents Congress from successfully designing and adopting a medium-term programme for attaining fiscal consolidation.

The House of Representatives has passed a budget that aims at medium-term debt reduction, but the Senate has failed to pass a budget since the beginning of the Obama administration. The only budget-related legislation that has passed the Senate has been continuing resolution bills that essentially lock in place past spending levels and



The need to create jobs is a pressing issue in the US. Some Americans are so discouraged that they have dropped out of the workforce altogether

As he arrives in Mexico to discuss the economy, US president Barack Obama will be aware of an election looming and the difficulties faced by his own country

patterns. A multitude of tax increases are set to take place on 1 January 2013 unless Congress takes action before then. These include not just the famous Bush tax cuts on the rich, but all the Bush tax cuts, including those on the poor and middle class.

It will also include the tax cuts in the stimulus programme, the reduction in estate taxes, the correction in the alternative minimum tax, the payroll tax break and business investment expensing.

In total, the tax increases will amount to roughly $500 billion in 2013. Obviously, this would be a disaster for the domestic economy. But there is no political will in the administration to bring up these seriously needed fiscal policy changes before the election. That means that these very important fiscal policy decisions will be relegated to the lame-duck session of the Congress, which will take place sometime after the November 2012 election.

Stimulus measures

In that lame-duck session, Congress will face the same political pressure that it faces today – Republicans resisting tax increases and Democrats resisting expenditure reductions. The chaos is likely to be staggering. And bad legislation typically results from tight timetables that force draft bills to be voted on without reading them. Unfortunately, fiscal consolidation will await the administration that takes power in January 2013 – either Obama Two or Romney One. Clearly, fiscal issues will dominate the new president's agenda, whoever the next president is.

Given the uncertainty in the global economy, with growth slowing around the world – not only in the industrial countries, but in major emerging market economies as well – the G20 leaders must craft a message that restores business and consumer confidence. For starters, the leaders need to develop an action plan that details the specific contributions that each country will make in order to restore growth prospects.

For some individual members, fiscal consolidation continues to lead the agenda. For others, deregulation and the freeing up of domestic structural restrictions to market forces are top. And for others, domestic demand stimulation is called for. Those countries that are not facing a national debt restriction need to create stimulus measures that will create domestic demand.

G20 members need to recommit their countries to the pursuit of freer global trade measures. The temptation to restrict imports in difficult times is short-sighted and must be rejected

Focus on energy

In addition, all G20 members need to recommit their countries to the pursuit of freer global trade measures. The temptation to restrict imports during difficult times is short-sighted and must be rejected. Evidence continues to grow that many members have forgotten the value to their domestic economies of freer trade and capital flows.

Also, the G20 members need to focus on energy supplies. Recent rises in crude oil prices have restricted the global recovery as some fear a renewal of inflationary pressures. The G20 could agree to an action plan that encourages alternative energy development – without government subsidies – and encourages the exploration and drilling for oil and gas in order to provide energy supply in the short to medium term.

Alternative energy sources are not yet major factors in the global energy supply and are not likely to be in the next five to 10 years.

In the meantime, nuclear, coal, oil and natural gas will continue to provide the vast majority of the globe's demand for energy. ■

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Europe's growth challenges – seeking common ground

The crisis in the eurozone affects every country in the European Union in different ways, but national circumstances make it harder to formulate – and agree on – a united policy for growth

By Paolo Savona, emeritus professor of political economy, Rome

Everybody is wondering what the prospects for growth for the European Union are. From an economic point of view, the EU is divided into the eurozone, composed of 17 countries, and an area of 10 other countries, with Turkey and four other small states on the waiting list. The eurozone has a common currency, with one official exchange rate; all the EU members are bound by fiscal ties, which have become pressing with the fiscal agreement of 9 February 2012 still to be ratified by national parliaments.

The two areas have respect for competition rules and a few other minor matters in common. Within the two European groups, the differences in economic trends are such that the statistical averages in the growth of gross national product (GNP) are not statistically significant, although these averages are under continuous examination by governments as well as by markets. Therefore, there are no 'European' growth challenges, only challenges to single European countries.

Coping with the euro crisis

After the severe euro crisis caused by a risk of default of some sovereign debts – partly because they were involved in the US financial crisis followed by the Lehman Brothers bankruptcy – the EU has made important decisions to fill the gap left by the European treaties, which did not foresee such crises.

The European Central Bank (ECB) has interpreted its mandate to intervene in favour of sovereign debts, but only on the secondary market. Despite the mandate to control inflation, it has carried out a policy similar to the US Federal Reserve's quantitative easing. The European Council and Commission in Brussels have created the European Financial Stability Facility, a financial stabilisation fund that will become a permanent mechanism of intervention – the European Stability Mechanism. Under pressure from Germany, it has reinforced the rules for government budget deficits as provided for by the Maastricht and Amsterdam treaties, and steered a 'soft default' solution for Greece.

These decisions only partially re-established trust in the euro, which had never failed, as its strong value against the US dollar demonstrates. The euro has remained stable at around $1.30, although analysts consider it overvalued by 20 per cent for the countries of the eurozone experiencing difficulties in growth, and undervalued at least by the same amount for those that have been able to get development back on track. This again highlights the fact that the eurozone is not an optimal currency area (OCA).

As is well known, in order to guarantee the convergence of OCA economies, it takes free movement of labour and capital and a compensating fiscal policy in case of asymmetric shocks. In each of these fields, some steps have been taken by the EU, notably the Schengen Treaty, common rules for banks and finance, and so-called 'cohesion policies'. Yet they require improvement to invert the divergent tendency in national growth rates. There is a lack of common tax legislation for incomes and profits, and common treatments for wages and welfare, which are necessary to make the single market function in favour of all.

Nevertheless, the risk of an implosion of the eurozone and of the entire European Union can be considered overcome. This allows the EU and the single countries – and Italy is definitely the most important among them – to dedicate more attention to growth. The prevailing political set-up to pursue this objective is the recovery of the inflation control function by the ECB, which should be implemented in parallel with the recovery of fiscal stability at the national level.

Together with the strengthening of liberalisation, this would allow a crowding-in effect on private spending, as a consequence of the decreased need for resources on the part of the public sector.

The fiscal compact

After a period of a dramatic return to easy money and public spending in order to deal with the global financial crisis and the negative effects on the real economy, European policy is returning to a more orthodox approach. The possibility of growth across Europe depends, therefore, on the effectiveness of this policy, in which Germany and some others deeply believe, in contrast to

The value of the euro has remained relatively stable, despite the currency being overvalued in some countries and undervalued in others

France and some other countries, that are calling for a European intervention instead. The United Kingdom and the Czech Republic have withdrawn from this new fiscal policy regime referred to as the 'fiscal compact'.

The challenges for growth in Europe must, therefore, be considered on a country by country basis. Some of those in the eurozone – such as Germany and the Netherlands – show a current account surplus that would allow greater private spending, which is difficult for countries with a high propensity for saving. Others with a foreign deficit cannot increase public spending because they must reduce their budget deficits; they are asking instead for the issuance of eurobonds, that is, for the creation of a common indebtedness to finance public investment.

This situation does not favour development. Beyond the eurozone, excluding Sweden, public debt plagues everyone somewhat, even if they do not have a deficit the size of Britain's. Moreover, all the non-eurozone countries have current account balance problems, despite being able to manage their monetary policy and benefiting from the flexibility of their exchange rate against the US dollar and the euro.

Different circumstances

The European Union, therefore, in its division between monetary areas with different sovereignty, but with a conditional fiscal sovereignty for those prepared to join the fiscal compact, still finds the push towards growth mainly in the single market.

Europe is an interesting laboratory of economic policy for a world that has economic systems, such as in the US and Japan, that practise Keynesian policies with large public debts, but show contrasting foreign current account balances.

The main emerging countries of India and China have government budget deficits as well, but their current account balances are the opposite, with high real growth.

Therefore it is not possible to indicate a successful economic model, since it must be adjusted to national circumstances. This is why, despite all the leaders' efforts, it is highly unlikely that the Los Cabos Summit will be able to indicate a development pathway that is valid for the entire world.

The G20 leaders should thus try to explain the benefit or harm of maintaining such marked differences in public and foreign balances by indicating how to remove them. The reform of the international monetary and banking system and improving the homework of each country should be their task. ■

SPONSORED FEATURE

A business perspective on economic growth

Adopting policies to boost the economies of the world would not only benefit businesses but would ultimately help individual citizens and communities, too

Global economic growth is an excellent topic of focus for this G20 meeting. As a global business, serving customers in more than 180 countries, we welcome the opportunity to comment on this issue.

First, we readily admit that better economic growth directly benefits Caterpillar's sales and profits. But the benefits extend way beyond our income statement to our employees, dealers, suppliers, stockholders and communities. Since December 2009, Caterpillar increased employment (net of acquisitions) 34 per cent, or by 35,600 employees, so that plants could support higher sales. Higher sales also required the company to purchase more supplies from other companies and increase capital spending, benefiting employment at other businesses.

Just as improving economic growth benefits Caterpillar and our stakeholders, it would provide widespread benefits to the world's citizens and help solve some of today's critical economic problems. Some likely benefits include:

- **Employment:** Using International Labor Organization data for 83 countries, we estimated the number of unemployed workers increased by more than 11 million (about 18 per cent) since the financial crisis started. Businesses, the major provider of employment in many countries, will only add workers if sales increase. Sales growth ties closely to economic growth.
- **Budget deficits:** Sharp drops in income and profits during the financial crisis reduced tax receipts for many governments, contributing to larger fiscal deficits. The US dollar value of tax revenues for 21 developed economies declined 16 per cent between 2008 and 2009. This drop accounted for three-quarters of the increase in combined budget deficits. Recession-related budget programmes, such as unemployment payments, further worsened deficits. The weak economic recovery since 2009 has not fully restored tax revenues or employment, prolonging deficit problems for many countries. Simply put, accelerating economic growth would reduce budget deficits!
- **Income inequality:** Income inequalities worsened in many countries, in part due to increased unemployment. In rapidly growing economies, businesses are better able to create more jobs and increase wages in line with productivity. Both changes would reduce income inequalities.
- **Business confidence:** The financial crisis and the subsequent slow recovery contributed to significant changes in governments and more uncertainty about future tax and spending policies. In addition, recession concerns developed in both 2010 and 2011. These uncertainties caused many businesses to remain cautious about hiring and investing. Better economic growth would create a more stable planning environment for businesses and encourage more investment.

We doubt that many would argue against better economic growth – the problem is achieving this outcome. So far, results have been unsatisfactory, particularly in the developed economies. We monitor industrial production in 43 countries and output in only 14 of these countries has fully recovered from the financial crisis. Four years of sub-par performances are testing the patience of many people.

Caterpillar has economic professionals located throughout the world, who work closely with local marketing groups to assess economic developments and their impact on sales. These analyses heavily influence investment, production and employment decisions. Here's a summary of how frequently mentioned policy changes would impact our business decisions:

- **Structural reforms:** Actions to make economies more efficient, such as making labour markets more flexible, implementing simpler tax codes or promoting investment would improve efficiency. Greater efficiency allows a company or country to produce more but does not guarantee this output can be sold. Caterpillar will not increase employment or investment just because it becomes less costly to do so. We will do so only if we expect demand to increase.
- **Monetary policy:** Over time, and across countries, we found that monetary/financial factors largely drive business cycles and our sales. Lower interest rates, or better money and credit growth, generally lead to higher economic growth and sales. A tightening in such policies generally produces opposite results.

  The recent recovery showed the power of monetary policy. Beginning in late 2009, 40 out of 48 central banks we track started raising interest rates. Another three reduced liquidity provided to financial systems. Tightening was modest but economies reacted unfavourably; world economic growth fell from an estimated four per cent in 2010 to less than three per cent in 2011. Thirty-four of those central banks have since at least partially reversed their tightening, but more than a year's time was lost in restoring full employment.

  Any mention of monetary easing inevitably leads to concerns of higher inflation. But our experiences are that monetary policy impacts sales and economic growth, not just prices. We don't believe slow economic growth and high unemployment are currently needed to keep inflation under control.
- **Fiscal austerity:** Large government budget deficits and financing difficulties caused several governments to adopt fiscal austerity. So far, these policies mostly resulted in even weaker economic growth and bigger deficits, especially if combined with tight money. Although eliminating waste and shifting spending to more productive uses are always good ideas, we are negative about sales in countries using only austerity to solve budget problems.
- **Infrastructure investment:** Infrastructure development is important to our business so we spend considerable time studying needs. We've learned that many countries have not invested enough in infrastructure for years, resulting in insufficient and outdated capacity. Inadequate infrastructure irritates users, increases costs and waste, and sometimes limits production.

Several studies indicate well-planned projects would have good investment returns and would be good job creators. At a time when unemployment is high, returns to infrastructure are favourable and borrowing costs are near record lows, governments would be making good business decisions to finance such long-term investments.

After nearly three years of recovery from the financial crisis, the best word to describe our progress is “disappointing”. There are a number of excuses given: growth potentials are lower, recoveries from financial crises take longer and structural changes have occurred. Unfortunately, these reasons encourage a defeatist attitude – economies can’t do any better and people need to accept having less than in the past.

That’s not our attitude at Caterpillar. We believe the world economy can do better! The Great Depression of the 1930s was both a worse recession and a worse financial crisis than the 2009 downturn. In the United States, economic growth averaged 8.6 per cent yearly in the March 1933 to May 1937 recovery. Growth in the current recovery averaged only 2.4 per cent yearly.

The developed economies in Europe have had weak recoveries, and another recession is a concern. As a result, we are cautious about investing or increasing production in those countries. Sluggish economies are just not attractive to businesses.

Caterpillar has economic professionals located throughout the world, who work closely with local marketing groups to assess economic developments

The adoption of more pro-growth policies in lagging economies should be the top priority. True, such actions would benefit Caterpillar sales and many other businesses. But more importantly, citizens in those countries would benefit from better employment opportunities and higher living standards. Economic growth is really a win for everyone!

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Differentiated governance themes between Japan and China

The complexities of governance improvement, with conflicting priorities and little common ground on global economic issues, mean that Japan and China continue to plough their own furrows

By Naoki Tanaka, Centre for International Public Policy Studies, Tokyo

G20 summits will have little influence on the resolution of today's euro crisis and global economic uncertainties, just as the G8 has had little impact. In this situation, there is a G0.

Nonetheless, world order should be analysed according to individual issues, and individual regions and individual countries, too. In East Asia, Japan and China stand at opposite extremes. Japan has been a champion of modernisation since the Meiji Restoration. However, the focus of most industrial modernisation has now shifted from Japan to China, and Japan is moving into a post-modernisation phase in order to survive in the global context. Not even the G20 framework can lead to convergence between China and Japan.

The impact of the euro crisis

In the first stage of the 2008 financial crisis, after systemic risks spread from region to region, emerging economies began to decouple from developed countries, through stimulative government expenditures. However, such artificial measures could not continue forever, for two reasons. One was the expected rise in the inflation rate. The other was the distortion of resource allocation, which was typical in China. With huge government expenditures, the norm became 'state-owned enterprises (SOEs) in progress, private firms in retreat'. If this situation continues, the job market for university graduates will not expand as expected.

The European Union is China's number-one export destination. The country's coastal areas have been severely hit by export stagnation since the euro crisis began in 2010. The adjustment of Chinese economic growth has affected the prices and quantities for natural resources. Australia, Canada and Brazil are now suffering because China's economy consumes much of those countries' materials through its own growth. The euro crisis is bringing economic adjustment through integrated supply chains, which is an issue of interconnectedness that the G20 summit should address. However, its resolution is not an easy one.

The euro crisis has also brought financial drags on emerging economies. Sovereign debt crises have reduced the quality of bank assets, through the sharp fall in the value of national sovereign bonds. Thinning bank capital bases have led to decreased lending to emerging economies. Yet the growth of emerging economies relies on refinancing their debts. Such disintermediation will follow through the European banks' lending after the euro crisis, which may disrupt the financial mechanisms in emerging economies. As a result, fear is now spreading into emerging economies – and the G20 is the right place to discuss this contagion. However, the G20 is not the right place to discuss the technicalities of the financial mechanism.

The freedom of association is not permitted because of China's strict one-party political system. Yet the free exchange and coordination of opinions are required to generate more suitable economic development in China

Fundamental gaps

Japan and China have not discussed the possible financial interruption caused by the euro crisis. This is the crude reality. Why does such inflexibility exist between these two countries? Some say that conflicts on territorial and war-time issues have prevented the relationship between China and Japan from improving. However, more fundamental gaps exist.

The two countries are in very different phases of improving their governance (see diagram, right). Japan's governance structure is moving into a post-modern phase. China needs to shift urgently to rapid industrial modernisation. If Japan does not differentiate its approach from China's, Japan's industries may not reap 'smart profits' from producing commodities with no protection from China.

China still needs to move towards modernisation. In order to have more value-added products, the Chinese government needs to accept a multi-party system. At present, the freedom of association is not permitted because of China's strict one-party political system. Yet the free exchange and coordination of opinions are required to generate more suitable economic development in China, and they require political modernisation. Moreover, when China needs more foreign direct investment to create a value-added economy, it should adhere to the principles of national treatment required by the World Trade Organization. Between Japan and China, more such discussions need to be held, whether at governmental or non-governmental levels.

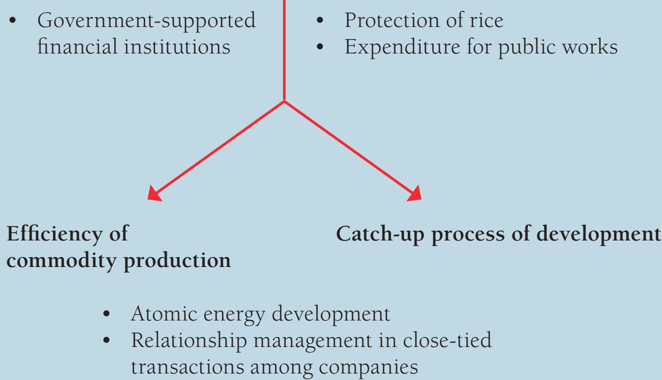
Conflicting phases

At the summit of the Asia-Pacific Economic Cooperation forum in Hawaii in November 2011 Japanese prime minister Yoshihiko Noda declared his intention to have Japan consider joining the Trans-Pacific Partnership (TPP). To become a member of TPP, Japan needs to resolve its agricultural problems, which is not an easy task for the

Japan's governance

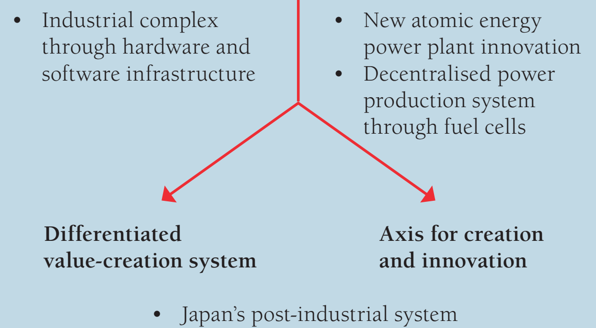
Old: Closed-economy model

Rebalancing of market mechanism to restore rural areas



New: Post-modern open-economy model

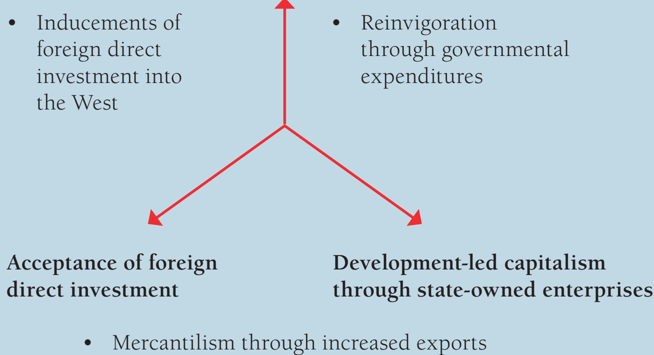
Rebalancing through one-to-one accountability



China's governance

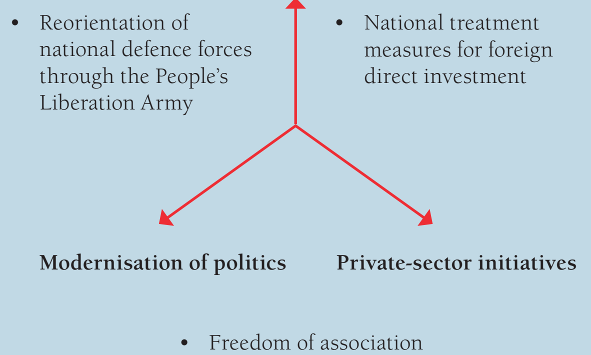
Old: Dependence on foreign direct investment

Rebalancing through harmonising society



New: Extreme end of modernisation

Neutralisation of communist-occupied Middle Kingdom



Japanese government. However, the TPP framework is very beneficial for improving Japan's governance, which is required for its industrial innovation.

As China cannot qualify to join the TPP unless it modernises, the TPP also divides Japan and China. Therefore, for the time being, Japan and China cannot meet under the TTP framework.

Some refer to the G2 of the United States and China. However, a G2 cannot address global issues. The G0 or no-polar regimes are also mentioned – and in some situations the world will have to accept a G0. But Japan is perplexed by both the G2 and G0. Its anxiety comes not only because of its geography but also because of the differing governance structures between Japan and China. ■

The increasing relevance of gold in emerging markets

By Aram Shishmanian, CEO World Gold Council

Over the past five years a fundamental shift in global economic growth patterns has taken place. In the West a reliance on debt and consumption was dramatically exposed, resulting in a period of persistent economic turbulence that shows little sign of ending. Asia by contrast, led by India and China, has forged ahead. In 2011, China's economy grew by 9.2 per cent and India's by 7.8 per cent, growth in the US and Europe, by contrast, was below two per cent.

While China's rate of growth is expected to slow in the coming years, as the benefits of mobilising labour and capital recede, it will continue to far surpass forecast rates of growth in the West. With China and India expected to account for 40 per cent of global middle-class consumer spending by 2030 (source OECD), it is clear that global growth, supply and demand is increasingly shifting.

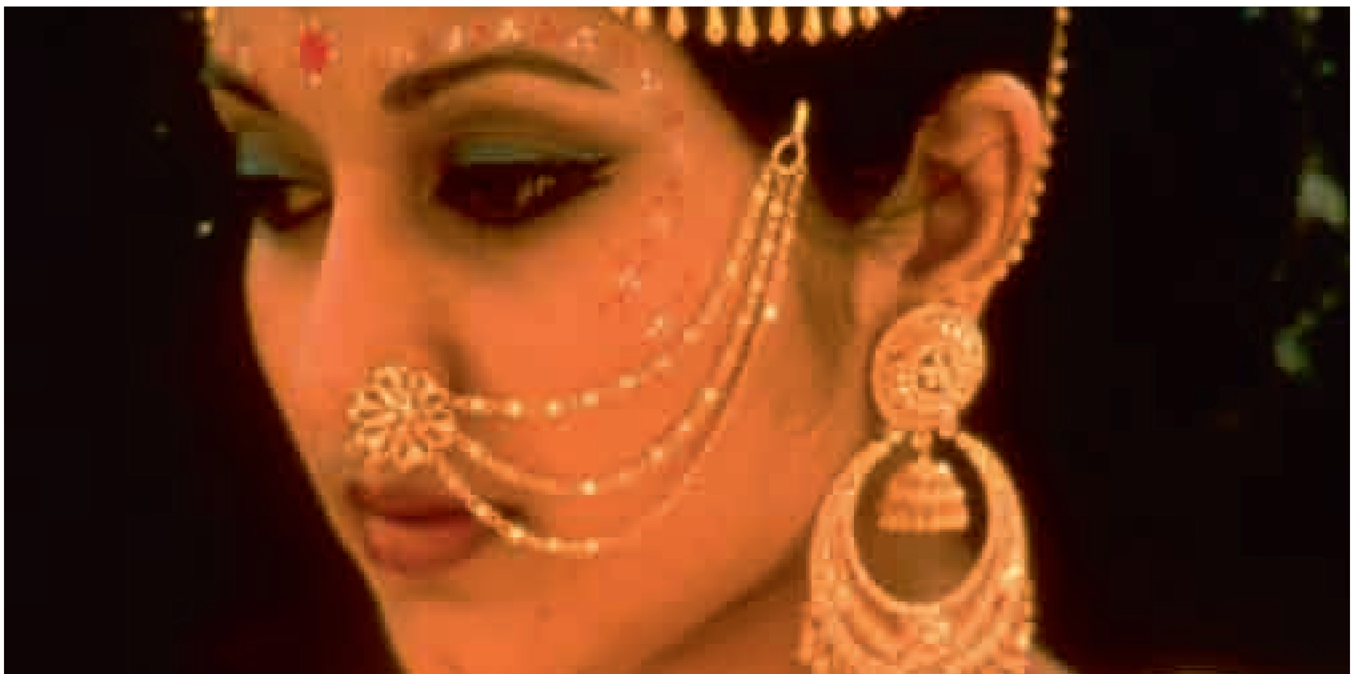
But the story of growth is not just the story of India and China. Emerging markets will contribute a rapidly growing share to world consumption, with Brazil sitting in the top ten by 2020, with a 2.5 per cent share of global consumption. By 2020 there will be an additional 300 million upper-middle and middle-class households, with almost half of these new consumers coming from developing markets. The ten leading economies in the Asia-Pacific region will drive an increasingly large proportion of global growth. Home to half of the world's population, but currently accounting for only a quarter of global GDP, the Asia-Pacific region is expected to account for half of the world's output by 2050.

We are still in the very early stages of this global shift. However, we have already seen policymakers react in unprecedented ways, with central banks across the world undertaking significant measures to protect national wealth. The rules of global finance look likely to undergo further significant alterations in the years to come. Consumer habits, of course, are shifting with the West-East re-balancing and will continue to do so. Gold is well placed to play a key role at the centre of these changes.

Appetite for gold in Asia has been on a sustained upward curve for the past decade, with China and India now the two leading markets for gold demand, with these two countries responsible for over half of global gold jewellery purchases last year, spending almost $55 billion.

> **The appetite for gold in Asia has been on a sustained upward curve, with China and India the two leading markets**

For Asian consumers with a heavily ingrained savings culture, gold is an ideal asset that serves the dual purpose of adornment and wealth preservation. High-carat jewellery is part of the lifestyle and the culture, used to mark celebratory and commemorative events, such as births, engagements, marriages and anniversaries. It is also traditional to offer gold



jewellery as gifts during important festivals, including the Chinese New Year or the Indian Dhanteras festival. As Asian populations have become more prosperous, attitudes towards saving and investment have also evolved, with gold a beneficiary of this evolution.

Looking ahead, as Asia becomes wealthier, demand for gold jewellery and gold for investment purposes is almost certain to increase. The World Gold Council estimates that by 2025, at least one billion people in China and India will have sufficient assets at their disposal to be active purchasers of gold. Naturally, this emerging middle class will purchase a wide variety of goods and invest in a broad range of products, but the Asian culture and tradition suggest the newly prosperous will also be keen purchasers of gold.

The region's interest in the precious metal stretches back to ancient times and has only intensified over the past decade. But gold is not only benefiting from increasing wealth in high-growth economies. Gold's unique qualities are being recognised by policymakers the world over. Since the onset of the financial crisis, central banks have reassessed both the optimal level and composition of reserves needed to maintain national wealth in a period of extreme uncertainty. It has become clear that a reliance on one or two currencies is no longer sufficient to protect national wealth. The world needs a multi-currency reserve system and gold has emerged as a solution.

Central banks are now significant net buyers of gold and last year these institutions bought more gold than they have ever done in the post gold-standard world.

The most active purchasers of gold in recent years have been central banks in Asia and other emerging markets. In the West, central banks, which only a few years ago were active sellers, are maintaining their gold reserves and in some cases adding to them.

As we move through 2012 and beyond, Asia is likely to play an increasing role in the gold market. It is the fastest-growing region in the world and the area with the greatest affinity for and interest in gold. The consequences for the global gold market and Asia's role within it are clear. Asia will increasingly play a central role in the gold story.

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The Chinese economy in transition: its contribution to global growth

Significant reforms are in the pipeline to harness the benefits of increased urbanisation and move China in the direction of a more balanced and consumption-driven economy

By Yang Yao, director, China Centre for Economic Research, Peking University

The Chinese economy has shown signs of slowing down since the fourth quarter of 2011. Economic indicators from the first quarter of 2012 are not encouraging. Gross domestic product (GDP) grew by 8.1 per cent year over year, the lowest in the past 11 quarters; exports grew by 8.9 per cent year over year, but declined in Shenzhen, whose exports account for more than 10 per cent of China's total; foreign direct investment (FDI) has declined in five consecutive months; commercial housing sales declined by 14.6 per cent year over year.

Structural adjustments

The euro crisis has been the most significant contributor to China's export slowdown. The European Union is China's largest export destination; its economic meltdown has dragged down China's export growth. The decline of housing sales, however, is a result of the central government's measures to cool the real estate market. It is unlikely that the government will change those measures drastically. However, monetary policy will undergo adjustments. The People's Bank of China, the country's central bank, lowered the reserve ratio again to 20 per cent on 18 May 2012. The market expects more adjustments in the next several months.

In the end, the Chinese economy is likely to grow by over 8.0 per cent in 2012, higher than the 7.5 per cent target set by Premier Wen Jiabao. The real challenge facing the country, though, is to carry out the structural adjustments put forward by the government's 12th Five Year Programme. It has been widely recognised that China needs to reorient its growth pattern from an export-driven model to one that relies more on domestic demand. Structural adjustments were also proposed in the 11th Five Year Programme, but most fell through. This time, however, is different. The government has announced several concrete reform plans that, if they are carried out, will move China in the direction of a more balanced and consumption-driven economy.

One of them is to speed up the pace of urbanisation. Currently half of the Chinese population lives in cities. But this group includes migrant workers who stay in the city for more than 180 days in a year. Many do not bring their families because they do not have urban *hukou*, or resident status. As a result, they do not consume as much as they should. In addition to directly suppressing domestic consumption, this also has the effect of dragging down the growth of the service sector. The share of service employment has been increasing over time, but it is still barely above 35 per cent, less than half of the figure in advanced countries. Speeding up the pace and improving the quality of urbanisation will thus increase domestic consumption.

This urbanisation will be reinforced by another reform plan to allow migrants to obtain local *hukou* more easily. In the new policy announced by the central government, migrants in small cities automatically qualify if they have a stable job and housing, including rental homes, and migrants in medium-sized cities have the same right if they have worked in the city for three consecutive years. This reform has the potential to bring profound changes to Chinese society as well as to the country's economy. The Hu Jintao/Wen Jiabao government has removed most of the impediments for people to move freely across the country. However, migrants are still not treated as equal to local residents. The *hukou* reform will grant migrants the same rights as those held by locals to send their

children to local schools, to be protected by the urban welfare system and to participate in local political life.

Banking reform

A third reform initiative is to open up the banking sector to domestic private capital. While foreign banks have been allowed to operate in China as part of the country's commitment to its accession to the World Trade Organization, domestic private capital is still banned from establishing independent banks. As a result, informal banking has emerged, especially in Zhejiang, Guangdong and several other southern provinces. One of the problems of informal banking is that

A Chinese factory worker inspects door components on a production line. Recently, China's economy has shown signs of slowing down

it operates under the radar of regulation. At the end of 2011, a crisis erupted in the informal banking sector in Wenzhou, a city in Zhejiang province that is renowned for its private economy. This crisis alerted the central government and led to the announcement that an experimental reform would be carried out in Wenzhou. The reform will allow private capital to set up regional banks and give selected individual investors the right to invest outside China. A more efficient and inclusive financial sector provides ordinary citizens with the opportunity to share the fruits of future economic growth and thus increases consumption. Therefore, this banking reform will help to rebalance the Chinese economy.

The fourth reform is to reduce the presence of state-owned enterprises (SOEs). China has privatised about 90 per cent of its SOEs, but the remaining enterprises are usually big and operate under government protection. They consume a disproportionate share of financial resources and crowd out private firms in the goods market as well as in terms of access to bank credits. The World Bank's China 2030 singles out SOE reform as one of the most urgent reforms that the country should undertake. This report was a product of the joint effort of the World Bank and the Development Research Centre, one of the research wings under the State Council, so there is reason to believe that the Chinese leadership is seriously considering further reform of SOEs.

China's extraordinary growth of exports in the 2000s was largely the result of the one-shot effect of trade liberalisation following the country's accession to the World Trade Organization. In the new decade, China will have to find ways to increase domestic demand to sustain high growth. For that, serious structural adjustments are needed. The four reforms mentioned above will accomplish much if they are carried out diligently. There are obstacles, however. Strong interest groups have high stakes in the current system. It will need extraordinary government resolution to overcome the resistance. ■

Helping to building bridges to financial inclusion

Hemant Baijal, Vice President, Global Public Policy, MasterCard Worldwide

The meaning of financial inclusion

Financial inclusion is the process of ensuring access to basic financial products and services to meet the payment, savings, credit, insurance, financial management and investment needs of the underserved segments of society at a reasonable cost and in a transparent manner. Access to payment services, in the form of a payment or a financial account, either provided by a bank or a non-banking financial institution, is seen as the stepping stone to full financial inclusion. Additionally, innovative models that promote access through electronic payment services – for example, mobile payments, prepaid cards, and agency banking – are regarded as cost-effective, efficient alternatives that are able to satisfy the financial needs of the underserved.

A global mandate on financial inclusion

According to the World Bank FINDEX, more than 2.5 billion people lack adequate access to financial services, out of which 2.37 billion live in developing countries. Evidence has shown that the underserved segment of society tends to have a variability in income, underscoring the need for financial services such as savings and insurance. Also, gaining access to financial services does not necessarily mean that they will be used. In other words, individuals who do not use financial services are not necessarily constrained from participating in the financial sector. Globally, 65 per cent of financially excluded adults do not use financial accounts because of (i) a lack of money, (ii) the suitability of products and services, and/or (iii) the high cost associated with the low-amount transactions such populations typically undertake. Recognising this challenge, the Group of 20 (G20) countries created an expert group in 2009 to develop an action plan for improving access to financial services. This produced nine guiding principles on innovative financial inclusion. In 2010, the Global Partnership for Financial Inclusion (GPFI) was established to formalise and implement these principles in G20 and non-G20 countries. The global mandate was further strengthened in 2011, when 80 institutions representing 75 per cent of the unbanked population met in Mexico at an event organised by the Alliance for Financial Inclusion (AFI) to endorse the Maya Declaration: the first global and measurable commitments by policymakers to promote greater financial inclusion. In its capacity as the holder of the G20 presidency, the government of Mexico proposed further actions as part of the 2012 G20 agenda on financial inclusion, including carefully designed national strategies that support financial education and consumer protection measures.

> **Financial inclusion is not just about providing access to financial services. To promote high usage, such services have to be suitable to the needs of the user**

The effects of limited financial inclusion

Cash-based, face-to-face transactions are typically dominant in environments with limited financial inclusion. Due to safety and security of payments and the high cost of transporting cash, remote payment mechanisms, such as recurring bill payments, ecommerce, and cross-border p2p remittances, cannot be conducted efficiently in cash. The lack of safe, transparent and convenient options for satisfying payment needs other than through face-to-face transactions severely limits the overall growth of commerce and economic activity in a country. Through the promotion of financial inclusion, there can be a deeper influence on the economic growth of a country, in addition to providing financial access to the underserved. Therefore, from a public policy point perspective, governments should prioritise policies that promote financial inclusion in conjunction with policies that remove regulatory, infrastructure or other barriers to the growth of electronic payments.

The role of government

Developing a broad-based financial inclusion strategy that is consistent with national public policy goals requires a structured approach. First and foremost, policymakers must identify financial inclusion as a "stated national public policy goal" that has firm political backing and commitment at the highest levels of the government. This is a primary condition for creating the appropriate policy environment, so that the necessary reforms can be implemented. Second, it is also important that such goals are measurable using the right indicators for account access and account usage (as developed by the AFI, World Bank and others), and that there is a national strategy in place to implement these goals, with established milestones for all stakeholders in the value chain. Third, it is important that the enabling legal and regulatory framework is in place to support financial inclusion initiatives. While there is no specific framework for financial inclusion, for such initiatives to be successful there has to be a critical mass of legal and regulatory reforms that address various aspects of retail payments, including the types of bank and non-bank entities that can provide payment and financial services. Fourth, payment systems policies promoting open competition with multiple providers and technologies must be considered. This will help reduce costs, offer choice and increase efficiency. Various trade-offs must be considered between managing

multiple providers and technologies – while proprietary technology may bring benefits in terms of specific functionality, it also tends to be expensive and makes interoperability with the broader financial system more difficult. Finally, governments should require payment service providers must be required to engage in financial education campaigns that support the broad-based national financial inclusion objectives.

The role of payment service providers

Financial inclusion is not just about providing access to financial services. To promote high usage, such services have to be suitable to the needs of the user. In this respect, the role of the payment service provider is of primary importance, because of their direct relationships with customers. The provider also has an important role in promoting account access and eventually usage, through the development of innovative technologies and various measures that support their implementation, including marketing, financial literacy campaigns and customer support. The quality, efficiency and transparency of such services is an important enabler in encouraging the use of such financial services by the underserved, as they all help to build trust.

MasterCard's mission for financial inclusion

MasterCard understands that the financial needs of the underserved segment can differ from country to country and is committed to developing innovative solutions that are suitable for the target audience, made available through its bank and non-bank partners. In this respect, MasterCard's mission is to:

Drive global financial inclusion for underserved populations around the world by delivering safe, simple and smart payment technologies that make mainstream financial services relevant to those who don't participate because of a lack of: awareness or understanding; trust in traditional providers; and/or inconvenient access points.

Address the needs of the underserved segment through partnerships and investments in multiple products and solutions. Examples include creation of Mobile Payment Service (MPS) platform for mobile money services for the unbanked, partnerships with Telefonica and Western Union to provide segment specific financial inclusion solutions.

Deliver financial education through proprietary programmes and tools, such as MasterCard's Smart Consumer, Are You Credit Wise?, and Community Financial Outreach Program. MasterCard has also entered into partnerships with organisations such as Pro Mujer, Network for Teaching Entrepreneurship, Junior Achievement, UN Women and INSEAD, to help provide young people and adults on low incomes with the training and resources they need to build and preserve assets.

Provide financial support to programmes that are focused on furthering financial inclusion through entrepreneurship. Key focus areas include training the next generation of entrepreneurs, encouraging new business development and providing existing businesses with the necessary tools, training and access to capital for them to thrive and grow.

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Join together to generate global economic growth

Economic problems in Europe will be high on the G20 agenda, but a united response is also needed to resolve the issue of austerity measures slowing growth in developing countries

By David Hale, chair, David Hale Global Economics; co-editor of *What's Next? Unconventional Wisdom on the Future of the World Economy*

It is not clear what the G20 leaders will be able to achieve at their summit in Mexico this June. The world economy has become desynchronised, so there is no longer a consensus about how to coordinate economic policy.

There is also little enthusiasm for addressing other global issues, such as the impasse in the Doha trade negotiations.

The United States has regained its position as the G7 growth leader. Its economy grew by three per cent during the fourth quarter of 2011, and is likely to expand by as much as three per cent in 2012.

The Canadian economy will perform at least as well as the US economy because it does not have its legacy problems of falling house prices and large fiscal deficits.

The Japanese economy should achieve a growth rate of close to two per cent in 2012 because of reconstruction after last year's earthquake and an export recovery in the country after 2011's output disruptions.

Focus on Europe

The G7 laggard in 2012 is Europe. Southern Europe is in recession and growth in the north is close to zero. As with the 2011 Cannes Summit, the G20 may again have to focus on the sovereign debt problems of Greece, Spain and Italy. Greece's recent election produced a gridlocked parliament incapable of carrying out the programme devised by the International Monetary Fund (IMF) and the European Union to which it agreed under Prime Minister Lucas Papademos. There is a significant risk that Greece will lose access to the funds that were to have been provided under this programme, and thus Greece will find it difficult to finance government expenditures. The Greek government may have to follow California's example three years ago and issue IOUs to pay its bills. Such a situation will provoke renewed speculation about whether Greece should leave the monetary union. Such fears could well have a contagion effect on the bond markets of Portugal, Spain and Italy. The IMF raised $430 billion of new funds in April 2012, so it could offer financial assistance to the eurozone, but neither Spain nor Italy wants to pursue an IMF programme.

There is little that the G20 can do to help Greece if it lacks a government to carry out a reform programme. All the G20 can do is try to ensure that there is an effective firewall to protect other European countries from new market speculation about a break-up of the common currency. The G20 could also encourage the European Central Bank (ECB) to intervene more actively in the debt markets of Spain and Italy to restrain interest rates.

> ***The challenge for Mexico will be to limit the amount of time devoted to Europe's woes and save some for issues of more long-term importance***

The ECB boosted these markets significantly in early 2012 by lending more than €1 trillion to Europe's commercial banks. The Spanish and Italian banks used some of these funds to purchase their national debt. Yields began to rise again in March as the benefits of this lending eroded while the ECB stopped making purchases

of government debt. If Greece appears likely to leave the eurozone because of its political impasse, there will be no alternative to the ECB playing a more active role.

The G20 could also discuss the need for Europe to pursue a more growth-oriented economic policy. It is increasingly obvious that the fiscal austerity policies of the troubled eurozone debtors are deepening their recessions and making it more difficult to achieve their deficit-reduction targets. Italian prime minister Mario Monti has already said that he is unable to balance the Italian

As Greece experiences both political and economic turmoil, G20 members must consider the possibility of the troubled country leaving the eurozone

budget until 2014. It will also be difficult for Spain to achieve its new target of reducing the fiscal deficit to 5.3 per cent of gross domestic product (GDP) in 2012.

France's new president, François Hollande, has been advocating a more growth-oriented policy for Europe. He should use the G20 platform to offer proposals for enhancing European growth. There is an emerging consensus that the European Investment Bank (EIB) should increase its capital and offer loans for new infrastructure projects to promote employment growth. The increased capital for the EIB should be only the first step towards containing the recession that is now gripping Southern Europe.

The growth rates of many developing countries slowed during 2011 because their central banks tightened monetary policy in order to hold inflation in check.

The growth rate of Brazil declined to 2.7 per cent from 7.5 per cent. India's growth rate dipped to 7.0 per cent from 8.5 per cent. China's growth rate has eased to 8.0 per cent from more than 10 per cent in 2010. Both Brazil and India have cut interest rates because inflation has declined from levels that prevailed in 2011 in both countries. China has reduced bank reserve requirements, but is reluctant to cut interest rates because inflation is still at 3.5 per cent. The developing countries believe they can sustain growth through monetary policy. They are not yet planning more stimulative fiscal policies.

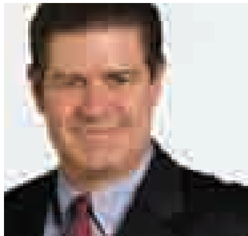
International policy coordination

One of the goals of the first G20 summit, in Washington DC in November 2008, was to restrain the danger of protectionism as unemployment rose in the industrial countries. The Global Trade Alert reports that since that meeting there have been at least 678 measures aimed at restraining trade. There were 242 measures in the EU, 112 in Russia, 111 in Argentina, 56 in India, 55 in China, 49 in Brazil and 26 in the US. The G20 should try to hold the danger of protectionism in check by offering strong support for the completion of the Doha Round.

The London Summit in April 2009 was probably the high point of G20 policy coordination. There was a severe global recession, so the great majority of countries pledged to pursue stimulative fiscal policies. The meeting also agreed to increase the IMF's resources by $500 billion. The desynchronisation of the global business cycle now will make it difficult to reach a consensus on how economic policy should evolve. As Europe is now the global economy's clear laggard, it is likely to attract the most attention in Mexico, but Germany will resist efforts to pursue more expansionary fiscal policies at a time when deficits are still large. All the G20 can do is encourage the European countries to give themselves more time to achieve their deficit reduction targets.

The G20 is such a diverse group of countries that it can probably achieve a consensus only in extreme circumstances, such as those that prevailed during late 2008 and early 2009. Its primary role will now be to serve as a forum for developed countries to discuss issues of common interest with the developing countries. These issues include trade, climate change, international monetary reform and global savings imbalances. The challenge for Mexico, as host at Los Cabos, will be to limit the amount of time devoted to Europe's woes and save some for other issues of more long-term importance. ■

Sovereign debt and public finance today – lessons learned and looking forward



By James S Turley, Chairman and CEO, Ernst & Young

Incentives have consequences, good and bad. The latter are usually unintended. That, to me, is the key lesson of the economic episodes that have punctuated the bumpy path from dot.com boom and bust and the banking crisis to the sovereign debt crisis we face today. Switch the scene to government and I think we face a similar situation – whereby rules are encouraging the wrong kind of behaviour.

Too often in governments around the world, archaic accounting has been used to hide the true costs of decisions. Election and budgetary cycles have incentivised governments to concentrate on the near term. And, unlike well-run companies, today's governments are incentivised to mortgage their long-term future for short-term benefit.

My profession has long argued that today's complex and interconnected world demands a single set of high-quality accounting standards

Consequently, many are still accounting for pensions, post-retirement health benefits and other entitlements on a cash basis. They do not have the processes or systems in place to take stock of the assets and liabilities they hold. And this is at a time when the need for governments to be accountable for their decisions around resource allocation is more important than ever before.

The sovereign debt crisis exposed the seriousness of poor financial management and sub-standard reporting by the public sector. It exposed the problems of archaic accounting and the need for modernising control systems and financial infrastructure. Yet governments are still taking decisions, which will affect their countries for years to come, with limited discussions and almost no disclosure of the long-term consequences.

In the aftermath of the financial crisis, governments, the International Monetary Fund, bond markets and investors need to be making the right decisions more than ever. But they need much better information to do so, and the public has a right to see such information. So it's inevitable that questions are being asked today about the appropriateness of government accounting.

Poor government accounting alone did not get us where we are today. Fundamental issues need to be addressed around market reform; government spending and taxation; and social provision and dependency cultures. But accounting can help lower the risk of decisions being made that burden future generations, and I believe that this can be done in three ways.

1. Improve transparency in government accounting

Over a generation or so, the private sector has had to incorporate measures that address the transparency and usability of financial statements and in my view, the public sector urgently needs to do the same.

We have to go into this with our eyes open – with improved transparency, the financial situation of many governments might well look worse before it looks better. But I firmly believe that better-quality financial information is a must if governments are to perform efficiently and effectively and respond to the needs of its citizens and the mandates of modern governing.

More widespread adoption of accrual accounting is an important step. While many countries have moved to accrual-based accounting, there are exceptions such as Germany, Italy, the Netherlands and Japan. And, while not affected by sovereign debt in the same way, major economies such as India, Brazil and China are still using cash-based accounting.

Of course, there are hurdles to change. The link between financial accounting and budgetary accounting and appropriations is one. A lack of resources to fund these reforms and to develop internal expertise is another. But these are not insurmountable challenges. And organizations like the World Bank and IMF are very active in funding capacity building, conversion and implementation.

In addition, governments need to provide more comprehensive reporting. It's no longer enough to judge governmental performance limited to the financial perspective, based on a single balance sheet date. Governments need to move beyond the election window or cycle and take a longer-term view – say over 40, 50 or even 75 years – and consider General Purpose Financial Reports such as 'Reporting on the long-term sustainability of Public Finances' or 'Service Performance Reporting'.

2. Improve consistency and comparability by adopting international accounting principles

My profession has long argued that today's complex and interconnected world demands a single set of high-quality accounting standards to provide the comparability that cross-border companies, cross-border investors and global capital markets need. The same holds true for the public sector.

Yet, unlike Government Financial Statistics, governmental accounting and financial reporting standards are still largely inconsistent. As governments increasingly work together on coordinated solutions and efforts – and as such share a common liability – it becomes increasingly unacceptable for the differences between accounting standards and levels of transparency to

continue. In fact, global financial regulatory convergence is something that the G20 and many other countries have called for to create stability for capital markets and investors. We believe that International Public Sector Accounting Standards (IPSAS) are a large part of the answer, but few countries are applying them in their entirety.

There have been some encouraging signs, however. While the rejection of the European Parliament monetary and economic affairs committee's proposal to mandate IPSAS for its member states was disappointing, although not surprising, the proposal itself is positive.

And we're pleased that a study is being conducted on the average gap between current governmental accounting and IPSAS, which Ernst & Young is helping Eurostat with. Based on these results, Eurostat will assess the feasibility of an EU-wide conversion before the end of the year.

3. Improving clarity of communications and, therefore, accountability

Our 'Toward Transparency' study found that few governments see essential stakeholders as key users of governmental financial statements. When asked who their key users were, around two-thirds of governmental financial officials across 33 countries did not mention international financial institutions and ratings agencies. And only half mentioned their own citizens – who presumably have a great, and growing, interest in how their taxes are being spent.

As governments come under increasing scrutiny from stakeholders questioning their response to the current economic situation, they will be forced to change their approach. Presenting information to a broader range of stakeholders, in a clear and digestible form, helps to improve stakeholder understanding. Just as importantly – it helps to foster a culture of accountability, which aids better decision-making.

There are examples of leading practice. France's 'Les Comptes de l'État' gives an easily digestible overview of the important financial facts, for example, and the 'Citizen's Guide to the 2011 Financial Report of the United States Government' is another.

But in demanding clearer communications and accountability, there are fundamental cultural issues that need to be addressed. Politicians need a framework that incentivises them to take decisions that better align to the long-term public interest – not the electoral or annual budgeting cycle.

As a profession, and indeed as citizens, we must call for institutional arrangements that change politicians' incentives and effectively constrain their behaviour. The work that IFAC and the UK's Chartered Institute of Public Finance and Accounting (CIPFA) are jointly pursuing to establish a governance framework for public sector organisations is a positive and encouraging step.

Building skills

Achieving these three improvements will require a commitment from governments to build their financial management skills and capabilities. Recently in Australia, the Auditor General's report to the New South Wales' parliament highlighted the need for more senior accountants after finding numerous mistakes in the financial records, a large number of which required correction before an audit opinion could be issued. Australia is likely to not be alone, just transparent.

Governments must seek to attract individuals with the necessary accounting, financial reporting, systems and other relevant competencies. They can do this through creating internships, innovative partnering arrangements with academic institutions and business enterprises, creating professional fellowships and other opportunities to serve in the governmental sector. Our profession can help with improved education, training and development. Ernst & Young, for example, has recently agreed to partner with CIPFA to help train countries adopting IPSAS.

Facing the facts

Finally, governments have to face up to the fact that change is not optional. The current situation can't continue indefinitely – the costs are too high in terms of fiscal instability, investor confidence and economic growth.

Accounting alone cannot guarantee that governments will always make the right decisions – but it can help them make better ones.

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