The 3rd ICC Asia Pacific Regional Consultative Meeting

Remarks by Dr Victor Fung
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In today's interdependent world with an integrated global economy, more – and more effective – international cooperation among states is vital to tackle major challenges which transcend national boundaries and which governments are increasingly unable to resolve on their own. Today's global economic turmoil is clearly in that category. And so are several other very big issues: climate change, water scarcity, food security, poverty alleviation.

World business, as represented by ICC, welcomed the decision taken by the G20 leaders at their Pittsburgh Summit to designate the G20 as the "premier forum" for international economic cooperation. ICC had long argued that countries with big emerging markets should be fully integrated into the international decision-making process if problems of global proportions and impact are to be effectively addressed. With a membership accounting for 90% of global gross output and 80% of world trade, the G20 goes a long way to satisfying that condition. The elevation of the G20 - with an increasingly wide mandate - into a forum meeting regularly at the level of heads of state/government has been a major step towards modernizing the institutional structure created after World War II to help manage international economic relations through a multilateral approach.

Also welcome has been the willingness shown by the G20 leaders to reach out to business and to listen to its advice. This was formalized in November 2010 when, at the path-breaking initiative of the President of Korea, over 100 heads of global companies from 34 countries were invited to a so-called G20 Business Summit to exchange views with heads of state/governments assembled in Seoul for the official G20 meeting. The government leaders' communiqué from Seoul stated explicitly: "Recognizing the importance of private sector-led growth and job creation, we welcome the Seoul B20 Business Summit and look forward to continuing the G20 Business Summits in upcoming Summits".

ICC played a prominent role at the Seoul Business Summit, both in contributing policy substance to the discussions and in helping organize the business presence. In the spring of 2011, it created the ICC G20 Advisory Group, a CEO-led forum that will set strategic directions and oversee ICC's work for the next G20 Business Summit scheduled by the French G20 chairmanship for 2 November 2011 in Cannes. The intention is to enlarge the membership of the Advisory Group over time and expand its mandate to develop and feed business policy views into the official work programme of the G2O between as well as at the annual summits of heads of state/government.

In other words, ICC has taken the decision to prioritize the new G20 as a crucial interlocutor for business in today's rapidly-evolving global economy. It is in the clear interest of business to help ensure that the new global economy that is emerging will be based on open and fair competition and that business everywhere will compete under a common set of global rules.

Like many intergovernmental organizations and initiatives, the forum for G2O heads of state/government was created in response to a crisis – in this case the near-collapse of the global financial system towards the end of 2008. The G20 played a major role in helping prevent the worst from happening at that time and has rightly taken credit for the speed and solidarity it showed in responding to that dangerous situation. Since then, its achievements have been more mixed – admittedly in the face of a mountain of stubborn problems in the world economy. In short, the G20 has still to prove that it is able to coordinate the policies of the world's major economies on an ongoing basis with a view to increasing sustainable growth and employment on a global scale. This, ICC believes, must be the core mission of the G20 by which it will be judged a success or failure in the course of the years to come. Growth and jobs!

As it did in advance of the 2010 G20 summit in Seoul, ICC has this year begun feeding business views into the policy-making process in advance of the 2011 G20 summit in Cannes, France. Under the direction of the ICC G20 Advisory Group, short policy papers with key messages to the G20 have been produced on trade, investment and development, green growth, corruption, financial regulation, international monetary reform, and commodity price volatility.

At the first G20 Summit in Washington in November 2008, world leaders were preoccupied by the crumbling financial system and the onset of the deepest global recession for over 70 years. Almost exactly two years later, in Seoul, they were congratulating themselves that their "unprecedented and highly coordinated fiscal and monetary stimulus [had] worked to bring back the global economy from the edge of depression". Their focus was turning to many other, deep-seated problems - and their agenda was expanding rapidly. Indeed, the recommendations to the G20 summit in Seoul from the business community itself - as endorsed at the G20 Business Summit - amounted to almost 200 pages of text and were the outcome of deliberations in 12 CEO-led working groups on a broad range of subjects.

As the Cannes G20 Summit approaches in November 2011, the minds of world leaders are again inevitably focused on more short-term matters. Hopeful signs earlier in 2011 of a strengthening of economic growth in Europe and the US have been dashed in recent weeks by a worsening debt crisis in the eurozone and by an unedifying battle in the US Congress about raising the government borrowing ceiling which has damaged confidence in the US political establishment and provoked a downgrading of US debt by one of the big rating agencies. Growth in the EU and Europe is slowing down again, and there is renewed talk of a "double-dip" recession. Japan's economy is still reeling from the terrible tsunami of March. And, although much of the emerging world is still enjoying rapid growth after its sharp bounce back from the 2009 recession, high and rising inflation is giving cause for concern in several major countries. Meanwhile, recent weeks have seen some high-profile cases of trade and financial protectionist measures being deployed by G20 and other states in an effort to lessen the impact of large current account imbalances on currency exchange rates and relative export competitiveness.

Though the economic performance of emerging markets is no longer dominated by cyclical movements in advanced economies, the current crises in the latter are a very negative factor for the whole world. The gloomy context in which the Cannes Summit is set to take place should be a weighty reminder to all G20 member countries that they succeed or fail together in today's highly inter-dependent global economy

Adapting to new economic realities

- ***The world's economic centre of gravity has shifted east and south***

  The beginning of the 21st century marks a shift in the balance of economic power, with dynamic emerging countries from Africa, Asia, Latin America and the Middle East making important breakthroughs in global economic competition. According to the World Bank, emerging and developing nations accounted for 42% of international trade flows in 2010, up from 26% in 1995[1]. The Economist estimated that, in 2010, the developing world represented 38% of world GDP, 60% of global energy consumption, 52% of all purchases of motor vehicles, 82% of mobile-phone subscriptions, and only 17% of global public-sector debt[2]. Today, over three-quarters of all foreign exchange reserves are held by countries with developing economies. Sovereign wealth funds and multinational companies from emerging countries have become key sources of international investment. One third of foreign direct investment flows in the developing world originate from other developing countries. Whereas the US, Europe and Japan were the dominant forces in the global economy for half a century after World War II, the World Bank estimates that, by 2025, six major emerging economies (Brazil, China, India, Indonesia, South Korea and Russia) will collectively account for more than half of global growth.

[1] See *Multipolarity: The New Global Economy*, Global Development Horizons, World Bank, 2011.
[2] See *Economic focus: Why the tail wags the dog*, The Economist, 6 August 2011

- ***National economies are increasingly interdependent***

The speed at which the breakdown of the US mortgage market turned into a crisis of global scale revealed the extraordinary degree of integration and interdependency of today's world economy. Within months of the outbreak of the crisis, the United States, Europe, Japan and Russia dragged each other into recession. China, Brazil, India and other emerging economies fared better, but took a hit as credit contracted and world trade plunged. Interdependencies are not only a source of risk, however. They often represent a force for good. The rapid rebound from the crisis in late 2009 and 2010 would not have been possible without the healing effect of steady demand from key emerging markets. Through trade and investment activities, business is a powerful conduit for spreading growth from one country to another. Most of today's goods sold are now "Made in the World" rather than in any single country, as companies build their business models around global value chains, with research, design, manufacturing and marketing activities distributed across several regions of the world.

- ***Policy-making has become a global affair***

As national economies become more intertwined, the policy actions of national governments tend to have important spillover effects on other countries. For example, in farm trade, export restrictions by one major exporting country can have a destabilizing effect on world prices and lead to greater food insecurity in nations that rely on food imports to feed their population. In the field of macroeconomics, loose monetary policies in one large economy may result in a surge of capital outflows and create inflationary pressures in other countries. In today's interdependent world, increased dialogue among governments is vital to foster a better understanding of the economic interactions among nations. Stronger intergovernmental cooperation is also needed to tackle major challenges which transcend national boundaries and which governments are increasingly unable to resolve on their own. The big issues of today, including climate change, food and energy security, water scarcity, and long-term economic stability all require global solutions which can only be devised through the collective engagement of all countries.

These are the realities of the global economy in the 21st century, as leaders of the G20 prepare to gather in Cannes, France in one month's time for their annual summit. These realities are the background against which they will be called upon to grapple with the economic tsunami which is sweeping through the world economy.

There will be an important contingent from ICC at the B20 Summit which will take place in parallel with the gathering of G20 leaders. The minimum requirement we will ask of government leaders is that the agree a coordinated plan that will stabilize the global economy. We will also be proposing a plan of action that will create the environment in which business can work with governments in a concerted effort to sustain or stimulate growth depending on economies involved, and to create jobs in all countries of the G20 and beyond.