

Leaders of Change Summit: Istanbul World Political Forum
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- Good afternoon. My goal today is to leave you with one key message:
 - **Emerging Market Economies**, including Brazil, Chile, China, India, Mexico, as well as Turkey, **are becoming global leaders**, through their strong economic performance, but also increasingly through their economic policy leadership. And this will determine the future of the global economy.
 - **The experience of Emerging Economies** before the global crisis, their resilience *during* the crisis, and their strong post-crisis performance **offers lessons on how to manage risks, sustain growth, and protect people**.
 - **And the main lesson** is the importance of **getting the basics right**:
 - both in macroeconomic management;
 - and in the implementation of structural-institutional reforms to promote sustained and equitable income growth, that is investment climate and competitiveness reforms, human development policies, energy security and efficiency policies, climate change policies, etc.
- **Economic growth in Emerging Market Economies has been and will be the engine of the world economy**.
 - World output growth in 2010 is estimated around 5 %, and the most recent World Economic Outlook (WEO) projects 4.5 % for 2011 and 2012.
 - **But Emerging Market Economies** grew by an estimated 7 % in 2010, led by China and India (about 10 %); Brazil (7.5 %); and Turkey (8-8.5 %). These countries are now projected to grow by about 6% in 2011 and 2012.
- **So the economic weight of Emerging Market Economies is growing fast**. Indeed, their share in world GDP, by IMF estimates, was 17 % in the 1960s, but was to **close to 40 % in 2009!**

- Equally importantly, **Emerging Market Economies are becoming more important in setting global policy priorities and, together with advanced economies, in leading policy and institutional change in the world.**
 - Already EMEs play a prominent role in the G-20 and have larger capital shares and growing influence in the World Bank, IMF and other IFIs.
 - **Already Emerging Market Economies lead the world with good policies and reforms in several areas.** I will share examples later.
 - In future, this will happen more and more.

- **Starting with macroeconomic developments, global financial stability is not assured. There are unresolved sovereign risks issues in advanced economies.**
 - The Euro Area is still under stress. Bond yields have risen by over 110 basis points in the past 6 months. Spreads have widened for Greece, Ireland and Portugal, getting close to crisis-level highs, and have remained relatively stable only in Spain, despite Moody's March 10 downgrade to Aa2. Europe and the world will be watching the European Council meeting in 10 days.
 - There has been no contagion beyond the euro zone zone's periphery so far, but this should not be taken for granted in the near future! The risk of financial turbulence expanding beyond the euro area remains non-trivial.

- **Inflationary pressures are now building—fueled by rising energy and food prices and accommodative policies in advanced economies.**
 - Crude oil prices have increased over 15% in the past two months. Demand for oil price call options at \$200 per barrel has increased in recent weeks.
 - The unrest in the Middle East and North Africa continues, and significant uncertainty remains about oil supplies and prices.
 - The risks to the world economy are not trivial! By some estimates, a 10% rise in oil prices during one quarter would lead to an annualized 0.7% increase in world CPI and a 0.25% decline in global GDP.
 - And there are risks especially for energy-importing countries, such as *China* and *India*, which are now the *second* and *fifth* largest net oil importers in the world. Turkey of course imports 90 percent of its crude oil needs.

- Headline inflation has increased in the Euro Area (to 2.4% in January 2011) and the UK (3.7% in December 2010), putting pressure on their central banks to act at a time their economies remain weak.
- In Emerging Market Economies, core inflation has now crossed 6% (about 1 point higher than a year earlier).
- **And accommodative macroeconomic policies in advanced economies—with near-zero monetary policy rates in G-7 countries and quantitative easing in the US and Europe—compound the challenges for Emerging Economies.**
 - Strong fundamentals in Emerging Economies and low interest rates in advanced countries led to a rebound in net private capital flows in 2010. Net inflows to Emerging Economies rose from 1 percent of GDP in 2009 to 4 percent in 2010. In our region, Russia and Turkey have been major beneficiaries, but also Brazil, Chile and most of emerging Asia.
 - This surge in capital flows, mostly short-term flows, has fueled strong credit growth and overheating risks, and balance sheet regulatory problems are emerging (or re-emerging) in some Emerging Market Economies as a result.
 - Since 2008, bank assets in BRIC countries have risen by over 75 percent.
 - BRIC countries have seen growth in domestic credit to their private sector of *over 25% per year* over the past 5 years, resulting in a sharp increase in private sector debt-to-GDP ratios, albeit from low levels.
 - The growth of commercial bank assets particularly in Asian and Latin America Emerging Market Economies is feeding possibly unsustainable real estate booms in countries such as Brazil, China and Singapore.
- **How can Turkey and other Emerging Market Economies position themselves to deal with these risks? And to make the recovery stronger, sustainable and equitable? In my view, getting the basics right is a key lesson from the experience in Turkey and other Emerging Market Economies.**
- **First, prudent banking and macro policies:**
 - In 2001, Turkey fundamentally reformed, cleaned up, and recapitalized its banking sector and overhauled regulations and regulatory agencies. Today Turkey's financial sector is strong, transparent, and resilient.

- Similar, and equally successful, banking restructuring efforts took place in Mexico (1990s), Chile (1980s), and, particularly, in Emerging Asia, after the Asian crisis. There, as in Turkey, banks could navigate the global crisis without major disruptions nor need for state intervention.
- On the fiscal side, Turkey consistently realized large primary surpluses after the 2001 crisis and was able to lower its level of debt, create fiscal space, and reduce inflation to historically low levels. Similar fiscal efforts in other Emerging Economies, especially China and India, allowed them increased policy flexibility in managing the impact of the global crisis.
- More recently, countries such as Turkey, Brazil, China and Chile have adopted a series of macro-prudential measures, in an effort to deal with the price versus financial stability challenge posed by strong capital inflows. Such measures included implicit and explicit taxation of short-term capital inflows, strict loan-to-value ceilings, and higher capital requirements.
- While some of these measures are unorthodox, with as yet uncertain success, they are a bold attempt to address a difficult policy challenge.
- My key point is here is this: Turkey and other Emerging Economies today do address macroeconomic challenges, and they do so **systematically and better than in the past, with leadership at home and worldwide.**
- And the same is true for structural and institutional economic policies and reforms—reforms that promote a competitive business climate and help create more and better jobs.
 - Capital and investment flows are **globally** competitive today, so Emerging like Advanced Economies must build **global** competitiveness.
 - And Emerging Economies are catching up rapidly with Advanced Economies in the *Ease of Doing Business*.
 - This is an area where Turkey still faces significant challenges, particularly in increasing labor market flexibility. Turkey now ranks 65th in the World Bank's Doing Business rankings, but Turkey's neighbors have made more progress, faster: Georgia ranks 12th in the world, and Romania, Azerbaijan, and Bulgaria all rank ahead of Turkey.

- Now, with the impact of the crisis receding, countries have the opportunity once more to accelerate fundamental competitiveness reform, ...
- ... and Turkey has already begun doing so: For example, the recent adoption of the **Commercial Code** will go far in enhancing the transparency and competitiveness of the non-financial private sector, as the 2001 reforms did for the banking sector. And labor reforms that protect people better but also make creating jobs easier are on the way.
- Over the medium to long term, knowledge and innovation will be key for competitiveness, growth, and jobs, in Emerging and Advanced Economies alike. The world's leading examples come from Finland and Sweden, along with some G-7 countries, but also from Israel and increasingly India. What makes the difference in these countries, it turns out, is *simultaneous* advances in improving education, R&D systems, and infrastructure, while promoting joint private-public collaboration.
- Let me turn to **human development**, and as an **example, to the challenge of improving health care, while containing cost pressures**.
 - In OECD countries, public spending on health care represents about 6% of GDP, and is rising rapidly, driven by ageing populations, rising relative prices and costly developments in medical technology. Exploiting efficiency gains will be crucial to meet growing health care demands—*affordably*.
 - Australia, Japan, Korea and Switzerland do best in transforming money into health outcomes, according to a recent OECD report. For example, Japan spends less on health care per capita than most OECD countries, but still the Japanese enjoy a very high health status.
 - **What about Turkey? Turkey has come a long way since the introduction of its Health Transformation Program in 2003. The program is an example of how good policies can achieve dramatic progress in short time.**
 - In 2003, Turkey's health indicators ranked behind most other OECD and middle-income countries.
 - Today, Turkey has achieved near universal health insurance coverage (87 %), mainly thanks to the expansion of the Green Card program.

- Access to and utilization of health services has also increased thanks to the introduction of family medicine in 2004, which Turkey then rolled nationwide last year. And patient satisfaction increased substantially, from 69 % in 2004 to 86 % in 2008 among family medicine provinces.
 - These gains in access and quality of services have translated into significant improvements in health outcomes:
 - maternal mortality decreased ten-fold since the early 1970s. It fell from 8 times the OECD average then to twice the average today and stood around 23 deaths per 100,000 live births in 2008, so Turkey already meets the MDG goal on maternal mortality;
 - infant mortality decreased from 25 deaths per 1,000 live births in 2005 to 19.9 in 2008, in just 3 years.
 - Life expectancy at birth stood at 73.6 years in 2008, which is 92.8 percent of the OECD average, compared with 71 percent in 1960.
- **Beyond health, equitable growth is also about a comprehensive approach to providing social protection policies, particularly early in life. Latin America leads among Emerging Economies in this area, with effective programs to reduce poverty and increase families' investment in children.**
 - Brazil's *Bolsa de Familia* program reaches more than 46 million people.
 - Mexico's *Oportunidades* program reaches a third of the population.
 - Chile's *Crece Contigo* program offers comprehensive child protection.
 - All these programs have been thoroughly evaluated and found successful, as has Turkey's program, which is similarly successful.
 - And as some of you may know, New York has begun building its own similar program, adapting lessons from Emerging Economies.
- **I talked about macroeconomic policies; investment climate, competitiveness, and skills policies; and health and social protection policies. Finally, a few words about energy security and the climate change agenda.**
 - Energy drives competitiveness and growth through energy security and energy efficiency.
 - In Turkey, as in China, India, South Africa, and other Emerging Economies, energy has become a critical short- to medium-term supply constraint.

- Increasing energy supply capacity will be critical in these countries— from all sources, including and increasingly from **renewable energy**.
 - **Turkey has a comparative advantage and is becoming a leader in the development of renewable energy**, including wind, hydro, and in the future solar and geothermal energy.
 - **And renewable energy use of course promotes environmental sustainability and helps address climate change.**
- And as important as increasing supply will be **managing demand, especially through increased energy efficiency**. Indeed, the whole world faces a huge challenge in increasing energy efficiency. This is a challenge shared by the United States, Russia, China, and virtually all countries in the world.
 - What I would like to highlight is that, along with some leading European countries, some Emerging Economies are already doing their part and helping address climate change as a global public good.
 - According to the Climate Change Performance Index, which is intended to be used as a measure of “who is doing what” on climate change, Brazil, through the implementation of reforms to reduce deforestation and carbon emissions, is now the world leader in these efforts ...
 - ... with Mexico and India next, as they reduce pollution in major cities...
 - ... and even in China, not particularly recognized as a world leader in this subject, the focus on national emissions reduction policy is rapidly intensifying through nationally binding energy intensity reduction targets. Right now, it is estimated that China is installing about half of the renewable energy capacity in the world!

In conclusion:

- The sustainability of the global recovery will be inextricably linked to steps to be taken by policymakers in Advanced Economies in dealing with their structural problems. Emerging Market Economies have done their part in putting their houses in order—it is now up to crisis countries to achieve credible fiscal consolidation and restore confidence in their banking systems!

- Emerging Market Economies must remain vigilant over recent credit growth, rising energy and food prices, inflationary pressures, and overheating risks. Even with the recent macro-prudential measures, credit growth is likely to remain strong. Moreover, an eventual tightening of monetary conditions, in an environment where credit exceeds nominal income growth, could potentially lead to higher non-performing assets in many EMEs. **So, vigilance is the word!**
- **Emerging Economies have been closing the gap with advanced economies—in economic policies as well as in economic performance. Further progress will depend on doing more of the same, good thing:**
 - systematic improvements in education and skills, the business climate and innovation, energy security and efficiency, and, increasingly urgently, climate change adaptation and mitigation.
- **Turkey and other Emerging Market Economies have made progress in all of these areas and can continue to lead the way!**
- **Thank You!**