Speaking Notes

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"Globalization: A Multilateral Approach"

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Thank you, John (Spillane), for that kind introduction and for inviting me here today. I want to thank you for your leadership and your friendship. It's great to be back in Massachusetts and to have the opportunity to speak to the Worcester Economic Club. I want to especially thank Eric Schultz and the Fallon Community Health Plan, without which tonight's event would not be possible.

I also want to thank the members of this fine organization for your efforts to support the spirit of free market economies and to advance the interests of businesses, large and small, across our great country. I'm grateful for the opportunity to talk to you about a subject that's on our all minds – and that's the economy.

This morning, we all awoke to monumental change for the United States. Yesterday, we elected a new President. The election of a U.S. President is a long and difficult task. As it should be. But the election is over and I am hopeful that the talk of Red States and Blue States ends and that we now talk about our United States as we turn a new chapter in our history. But while we have a new President, what hasn't changed today is the challenge he and we continue to face.

Our nation is dealing with a serious financial crisis. Over the past month, Americans have witnessed fast-moving events involving complicated financial issues. The Federal government has taken bold action to stabilize our economy. Earlier this month, the President signed into law bipartisan legislation that is providing funds to help banks rebuild capital and resume leadership. The Federal Deposit Insurance Corporation has temporarily guaranteed most new debt issued by insured banks, which will make it easier for these banks to borrow needed money. And the Federal Reserve is launching a new program to provide support for commercial paper – a key source of short-term financing for America's businesses and financial institutions. These steps are beginning to show results, but it will take time for their full impact to be felt.

Additionally, the President is convening an international summit in Washington on November 15th which will be the first in a series of meetings to address this crisis. The summit will bring together leaders of the G20 nations, countries that represent both the developing and developed world, and will also include heads of the International Monetary Fund, the World Bank, and the Financial Stability forum, as well as the Secretary General of the United Nations. During the summit, the President intends to discuss the causes of the problems in our financial systems, review the progress being made to address the current crisis, and begin developing principles of reform for regulatory bodies and institutions relating to our financial sectors. In announcing the summit, the President said, "Our nations must also recommit to the fundamentals of long-term economic growth – free markets, free enterprise, and free trade. " "Open market policies which have shown themselves time and time again," he added, "to be the surest path to creating jobs, increasing commerce, and fostering progress."

And while one could argue that this type of government intervention in the financial system is not unprecedented, there is something about this particular financial crisis, and we've faced them before, which fundamentally sets it apart. This is a crisis not limited to the United States but rather has a much broader global dimension. This is a crisis, ladies and gentleman, which has illuminated the fundamentals of globalization and the interconnectedness of markets and economies around the world.

Twelve months ago, almost to the day, I officially took up my duties as the U.S. Ambassador to the Organization for Economic Cooperation and Development (OECD) in Paris, having been appointed by President Bush as his representative at this global forum. In twelve short months the world has changed dramatically. Little did I imagine that in twelve short months the world would be rocked by oil prices reaching unthinkable heights, soaring food prices threatening to starve much of the world's poor, or a financial crisis that has ricocheted from stock exchange to stock exchange, touching all four corners of the globe in lightning speed. Having come to this position somewhat skeptical of the value of international organizations, I stand before you today steadfast in my conviction that multilateralism has never been more critical in helping to solve global issues than it is today.

Like it or not, there has indeed been a fundamental paradigm shift taking place for a long time which recent events demand not only that this shift be acknowledged by those who might choose to discount it, but that we take appropriate action, and swiftly, to ensure that we are well prepared to act and react to the opportunities and threats this new paradigm presents.

The Face of Globalization Today

Perhaps the greatest impact and influence on the OECD and its 30 member countries today, if not the world, is the phenomenon of globalization. As markets are opening up and we witness the integration of national economies into the international economy, the world economy is experiencing one of its most dynamic expansions ever – growing a full 35 per cent over the last seven years. Never before have we witnessed such human progress on such a broad scale and been faced with so many simultaneous challenges.

At a recent OECD Global Forum on Trade, this paradigm was considered not so new after all, as we're currently witnessing what is now called globalization's "second phase," influenced largely by technology. With the "genie out of the bottle," it's safe to say that globalization is here to stay.

How has it affected world growth? Under this new wave of globalization world trade has tripled and the global stock of foreign direct investment (FDI) has grown five-fold. During the last 15 years the number of multinational corporations more than doubled, and the number of patents reached a record 5.6 million. Research and development (R&D) have bloomed and spread globally. International migration has created a "borderless workforce," while the internet - with nearly 1.4 billion users – is opening a virtual highway for human progress.

Because of globalization, Europe remains the largest trading entity in the world and the main supplier and recipient of Foreign Direct Investment (FDI) flows. The European Commission estimates that one fifth of Europe's income gains since World War II can be attributed to globalization.

In future however, countries like China and India will dominate this story and millions of people will benefit from globalization with improved standards of living. In China, during the last three decades, per capita real income has risen twelve-fold and more than 400 million people have escaped extreme poverty. In India, the average growth rate is close to 9 per cent per annum in the past five years, and they have experienced an investment rate of 36.3 per cent and a savings rate of 35.6 per cent.

Globalization has multiplied opportunities, but it has also increased competition for markets and investments. India's high growth has been driven mostly by private investment, a welcome development. Obviously, more needs to be done in India, however, to lift millions out of poverty. Despite these challenges, we must remember that we cannot turn back the clock on globalization.

What we know is that global economic integration has made it possible for three billion people to enjoy the fruits of growth in the post-war period. But we also know that people need to be safeguarded from the adverse distributional consequences and crises episodes. Growth is fundamental to economic development. A growing economy is the major way towards reducing poverty, unemployment and social exclusion. And growth performance depends strongly on the ways a country exploits economic links with the rest of the world. In fact, market openness in developing countries may be the single most important factor in raising per capita incomes and accelerating catch-up. Open markets and liberalized trade are key.

And it has been key in the U.S. as well. Here at home, the lower trade barriers achieved through past trade agreements have added an extra $56 billion in income annually to the U.S.

economy. Since 1993, exports alone have accounted for one-third of U.S. economic growth; and more than 12 million Americans owe their jobs to exports.

With growth such as this, one might wonder why many countries, including the U.S., are trending toward more protectionism. One reason countries resist the movement towards a more open trade regime is legitimate concern over adjustment costs. In this new paradigm, pain is usually felt immediately while the gains are realized over the longer term. It's critical that governments look at social policy and ways in which we can protect citizens, not by protecting their jobs but by growing new and better ones -- by readying ourselves for even greater global integration.

The OECD and Multilateralism

The OECD has long recognized the opportunities and challenges of global economic integration. Created as an economic counterpart to NATO, the OECD was created in 1961 and, since then, its mission has been to help member governments achieve sustainable economic growth and employment and rising standards of living while maintaining financial stability, all of which is intended to contribute to the development of the world economy as a whole.

The Organization started out with just 17 members and today counts 30 countries worldwide as members and works with more than 100 developing and emerging market economies.

But something fundamental has shifted within the OECD in a very short period of time. Long home to the world's largest and most powerful economies, today OECD's 30 member countries command 60% of global output, three-quarters of world trade, 95 per cent of world official development assistance, and over half the world's energy consumption yet, it only accounts for 18 per cent of the world's population. So rapid has been the shift in the economic environment that once the so-called BRICs – Brazil, Russia, India, and China – accounted for about 7% of global output and today that share is rising to more than 11 percent. By 2030, the G7 countries and the BRICs are expected to converge towards parity, with each accounting for about one-third of world output.

The OECD has recognized that in order to be better prepared for this new world order, in order to grow the global economy, it must ensure that its policies have the greatest reach and the largest impact. The engagement of rising powers in the world economy has made them stakeholders in a global system that will not only benefit them, but will benefit the entire world as well.

With that in mind, last year the OECD initiated accession talks with five countries -- Chile, Estonia, Israel, Slovenia and Russia. We've also begun a program of what we call 'enhanced engagement' with five major emerging economies with a view to possible membership, and those include Brazil, China, India, Indonesia and South Africa. These economies account for nearly half of the world's population, 15% of global exports and a combined GDP of 5.8 trillion dollars.

Developing closer relations and opening up membership will have two major benefits – first, it will help to influence much- needed policy reforms in these emerging markets, and second, it will allow these countries to benefit from the experience and expertise of OECD members as they guide their respective nations through the often choppy waters of globalization. Our hope is that we can extend our efforts to harmonize important economic policy to these growing and dynamic economies.

OECD Impact

To appreciate the significance of being able to influence these emerging markets, it's important to understand the "raison d'etre" of the OECD and how it works. Based on the principles of the Marshall Plan where countries in Europe reviewed each other to determine how aid should be spent, the OECD is founded on this "peer-review" model. Essentially, it means that we use the power of closely examining each member country's policy strengths and weaknesses, and laying those bare, to encourage members to improve their policies when weaknesses are exposed and hold up as best practices those which are exemplary.

Peer pressure has been and continues to be an extremely powerful tool to achieve the overall goal of members which is to reach multilateral agreements that help guide policies on the basis of like-mindedness but at the same time, reflecting national differences. What we do is build common international understandings that make globalization a more transparent, balanced and harmonious process. We do this by sharing government experience, by identifying best practices and through the Secretariat in Paris, providing state-of-the-art economic analysis and comparative statistics to members which are unrivalled anywhere in the world.

By comparing members' policies, we're able to develop innovative solutions and standardized policies that enable our businesses to compete fairly around the world.

The ability to engage with nations such China, India, and Russia is essential to harmonizing their policies on critical global issues such as climate change, trade, or corporate governance. The OECD is the only forum in the world where governments can discuss, challenge and come to agreement on economic issues that have a global impact. Growing global integration also creates growing global interdependence and mutual vulnerability, and as we now know from our experiences with globalization and recent crisis, our ability to engage on a multilateral level will determine our capacity to resolve and advance some of the world' most pressing and complex issues in the future.

Critical economic issues facing world governments

In addition to engaging with the key emerging economies of the world, OECD members governments, including the United States, have identified a number of critical economic challenges that form a key part of the our priorities which we believe are fundamental to our growth at home as well as abroad.

In addition to our important work on the Anti-Bribery Convention, Corporate Governance, and Development Assistance for example, OECD's 30 member governments are working closely to advance a number of other key initiatives.

First and foremost, OECD member governments believe that what will be key to future competitiveness, growth and innovation, not only for the developing world but for the developed world and countries such as the United States, is their preparedness and skill level their citizens possess.

Education

Education is key. Raising the quality of our human capital is certainly one of the most important ingredients of a competitive economic policy. In a world of global digital networks and knowledge-based economies, education is the ultimate comparative advantage. We see this time and time again. Simply put, open markets demand a highly skilled workforce.

Corporate America's competitors around the world seek internationally competent workers well-versed in foreign languages and masters of inter-cultural skills, enabling them to successfully interact with international partners. The internationalization of the labor market for the highly skilled and the aging populations in most OECD countries, mean OECD employers will increasingly need to look abroad for talent as new graduates will become insufficient to replace workers going into retirement.

While OECD indicators show that the U.S. draws on the most highly educated labor force among the principal industrialized nations, U.S. rankings have fallen for college completion rates, not because graduation rates declined but because they rose much faster in many other OECD countries. Clearly, ensuring that Americans are well educated is critical for our future success in this globalized world. Low-skilled workers in OECD countries are a particularly disadvantaged group in a globalizing economy because freer trade, combined with skilled-biased technological progress, tends to reduce the demand for unskilled labor relative to that for skilled labor.   Protectionism is not the answer.   Raising workforce skills and life-long learning is.

Innovation

A second critical component to competitiveness is innovation. Innovation is acknowledged as *the* main driver of growth and wealth creation. Today, OECD countries and many non-member countries view innovation as a key to achieving competiveness, greater participation in global markets and production networks, improvement in the quality of life of its citizens and as a tool for addressing global challenges. But the way we innovate is changing. Thirty years ago the focus was largely on technological change, finished products and linear progression; innovators today focus on the management of knowledge by interconnected networks, "open" systems of innovation, networks of excellence and communities of practice, and innovation carried out locally but with global reach. The challenge for governments today is to identify and promote the conditions for innovation in a way that is consistent with the overall goals of society and to harness innovation for sustainable growth and development.

The link between innovation and economic performance is becoming more widely appreciated in public policy. Modern economies are built with ideas and knowledge, as much as with capital and labor.   The creation, dissemination and application of knowledge will continue to be the main engine of national and global economic expansion for many years to come.

Reaping the benefits of globalization

In closing, let me end where I began – a new international order has arrived, perhaps yet to be fully understood or accepted widely. The economic changes happening now are structural, not cyclical, and therefore are truly transformative. While complexity and interdependency are characteristics inherent to globalization, we must find a way to address these challenges holistically. And while calls for greater global collaboration will not be easily answered, strategic foresight and global cooperation are necessary prerequisites for managing complexity. The speed at which economic shocks spread throughout the world will require systematic, coordinated, global responses. We must invest our efforts in multilateralism. We must engage the rising powers of the world. We must focus on good governance, transparency and the rule of law. Institutions that adapt quickly to new challenges are essential. A state that responds to people's needs and invests in their talents is essential too.

The OECD has spent nearly 50 years preparing the ground for a truly global, integrated economy which requires a multilateral approach. We know that we must focus on the fundamentals – invest in people, their education, in good governance and accountability.

The best prescription to ward off a global recession is entrepreneurial growth. We should remind ourselves that the vast majority of companies worldwide, and right here in the United States, along with their employees, are working hard at providing this growth. We must also remind ourselves that there are other major global challenges, such as energy security and protecting our environment, which require our attention. My hope, ladies and gentleman, is that the leaders from government, industry and civil society have understood that solving complex global challenges requires understanding how issues, interests, and institutions are connected to one another. We must take into account all stakeholders in our global society. We must recognize our deep interconnectedness – not as a threat, but as an opportunity that can serve to raise the living standards and economic growth of our planet. How well we manage these opportunities and challenges today will determine how well we'll succeed in the future. The United States stands to gain immensely but we have to be prepared to focus on our strengths, acknowledge our weaknesses and be ready to develop the right policies to stand us in good stead.

Conclusion

George Shultz, former Secretary of State and Secretary of the Treasury, was once asked why it is that people don't like markets. Many thought he would say it was because they were unfair or unjust. Instead, he said it was because they were "relentless. They don't stop." This kind of relentlessness has its strong benefits, its vibrant economy but it represents a constant pressure. These are indeed the kinds of pressures we all feel today.

I think it's useful to be reminded of another former leader of a great nation, Margaret Thatcher, and her call not to forget what she called Thatcher's Law – "The unexpected happens," she warned, "and you had better be prepared for it." The power of that point is all too evident today and we should be mindful that the road ahead is likely not a linear one. Just when everyone is convinced things are moving in one direction, we can be assured they will move in another. These are indeed challenging times, but I couldn't be more hopeful that we have the strategic foresight to manage the "unexpected."

As President Bush recently said, "Our economy is innovative, industrious and resilient because the American people who make up our economy are innovative, industrious and resilient." We all share in that determination and I couldn't be more hopeful for the United States as I look around this room tonight.

Thank you for giving me this distinguished honor to speak before you and to be able to return to Paris in the knowledge that we are united in our efforts to seize these tremendous opportunities before us. Go out and continue to do the great things that you do so that the United States can continue to be the great country that it is. Thank you.