**Opening remarks of Pier Carlo Padoan, Deputy Secretary-General, OECD, at the Global Forum on Trade, 25th June 2008.**

Distinguished guests, ladies and gentlemen, I am very pleased to welcome you to this 2008 Global Forum on Trade on the subject of **globalisation and emerging economies**. Over the past two decades or so, a number of factors have profoundly changed the outlook for global economic growth and development. Currently, however, the global economy is beset by a series of challenges in growth, in energy, in finance, in food and in inflation. These challenges demand appropriate governance and the multilateral trading system is a crucial element in addressing these challenges as well improving living standards across the globe in the medium and long term. Accordingly, I want to dwell on the healing power of open markets in the multilateral system for a few moments. But first let's consider what should be our medium term objective.

**These challenges may impact on the goal to promote continued growth and take-off in emerging economies and developing economies in a sustainable fashion.** At its core, this objective requires that we strengthen the efficient allocation of the world's resources. Increasingly, we cannot afford to waste valuable economic resources in enterprises that do not contribute efficiently to the welfare of the world's population. What does this mean in practice?

A metaphor of efficient resource allocation is as follows. Intel contracts out the design of a new computer chip to a Swedish firm of engineers and then has the chips manufactured by a subsidiary in an export zone in Malaysia. The chips are imported by a Dell subsidiary in a Pearl River delta export zone to make computers to be marketed globally over the internet by Dell US. After-sales service is provided on contract by a Mumbai call centre. The FDI and trade flows all along the line are supported by investment and tax agreements and no tariffs are paid at any stage thanks to trade policy adjustments, regional trade agreements (RTA's) or the WTO Information Technology Agreement (ITA).

A key to the success of this type of chain is the development of process technology that enables firms to transfer some, but not all, types of jobs to other countries. Emerging economies have benefitted tremendously from this technology and we cannot reverse technical advancement. The "genie is out of the bottle" and, in this sense, at least, the potential of globalisation is here to stay.

There are, of course, millions of efficient supply chains like this. However, there are also too many inefficient supply chains, and there are instances where a supply chain could operate efficiently but it is not there because market and/or government failure prevent it from happening. It is this unexploited potentional that sets our agenda.

Over the past fifteen years, the developing countries' share in world merchandise trade grew from less than one fifth to nearly one third. Inter-developing country trade is also on the rise; they exchanged nearly half of their exports to each other in 2006, compared with less than a quarter only a decade ago.

[ **Increasing numbers of developing countries have adopted outward-oriented policies].**

The structural shifts in international trade and investment reflect a sea-change in attitudes and policy approaches. The recent OECD Guidelines on Sovereign Wealth Funds is the latest manifestation of these attitudes. We have left behind inward-looking policies based on protectionism and import substitution in favour of outward orientation and openness.. Governments have stayed the course of market-led reforms -- indeed, even accelerated them when confronted with significant macro-economic difficulties.

The Growth Commission Report argues that the global economic integrations made it possible for 3 billion people to enjoy the fruits of growth in the post-war period. It also provides an economic springboard for another 2 billion people to fulfil their aspirations. The same report also makes the case that people need to be safeguarded from the adverse distributional consequences and crisis episodes. It notes also however, that openness itself needs to be safeguarded. "An international economy in a world of nation-states has no natural guardians. That is perhaps the biggest risk of all". Why do we need to protect openness?

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. Indeed, openness in developing countries may be the single most important factor in raising per capita incomes and accelerate catching-up.

**Openness improves living standards.**

The growth and poverty reduction attained by the developing countries that participated in world trade, investment and technology flows stand out as one of the most remarkable achievements in the history of human progress. Living standards have improved dramatically in outward-oriented countries, mainly in Asia. In 1975, six out of ten Asians lived in absolute poverty, a plight that afflicts only two out of ten Asians today. China has managed to bring down the share of its people living in poverty from 60 percent at the onset of economic reforms in 1978 to 27 percent in 2006. In sharp contrast, the poverty reduction record has been disappointing, sometimes even negative, in those countries that pursued economic policies unfriendly to market liberations and international trade and investment.

So what needs to be done to reinforce incentives for liberal policies? While liberal trade policies are likely to be beneficial under any circumstances, permanent growth effects require a combination of other good policies as well. Policies for macroeconomic stability, flexible labour markets, good governance and effective environmental policies are all “must haves” as well. If government "get it right"they can exploit a v….. circle. As empirical evidence shows, trade openness reinforces the pressure for implementing other relevant reforms that, in turn, compound the benefits of trade liberalisation.

This brings me to the final point. The political economy implications of trade libersations (an important part of a new area that the OECD is exploring, the political economy of reform.

As policy-makers, and as an organisation, offering advice to policy makers, we face a double responsibility: identify effective instruments to help individual countries carry out liberal trade policies; intensify efforts to help the international policy consultants to move forward to the global trade policy agenda.

One reason countries resist the movement towards a more liberal trade regime is legitimate concern over adjustment costs. The fruits of economic progress engendered by trade openness will not be uniformly distributed – some will gain and others may lose, also costs may come early and benefits may take time. The most effective policy response is to be found in looking at social policy, not by tinkering with trade instruments. Protection is a tax on efficient exporters and efficient import-competing sectors. It is always a tax on consumers and all too often a regressive tax. Protection has never proven to be an efficient means of sustaining employment - quite the contrary. Benefits, if any, will be limited, concentrated, and short lived. Costs will limit the economy as a shole and may take fare too long. The move to it if the rest of the world moves towards greater integration and liberalisation.

**The OECD is responding to liberalisation challenges in a number of ways.**

This Global Forum on Trade is an integral part of our Accession and Enhanced Engagement dialogue. The OECD must keep pace with the dispersion in economic activity globally. We are working towards a more balanced and inclusive world.

The OECD’s relations with nearly 100 non-member countries are broadening and their increasingly active participation in the work of our committees and groups has become a two way avenue for communications and learning.

The OECD is gradually turning into a real “hub” for dialogue on global issues. This was stimulated last year during the Summit at Heiligendamm when the OECD was asked to act as a platform for discussion between the G8 and the major emerging economies. Last year we also we started accession talks with Chile, Estonia, Israel, Slovenia and Russia. We are also strengthening our relations with Brazil, China, India, Indonesia and South Africa through an Enhanced Engagement process with a view to possible membership. And we are expanding our interactions with more than 70 other developing countries.

What started in 1947 as the Marshall Plan, to put Europe back on its feet, has evolved into a multilateral organisation to help the world economy work better; We are now a hub for the discussion of global policy issues, and this event, this Forum and your presence here is but one manifestation of the changing face and heart of the OECD.