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This year's theme is Competition and Innovation in a Global Context and I will focus my own remarks on the global context this morning.

But let me start closer to home. People often – in fact it seems increasingly often – tell me that retrospection is a sign of old age. I leave it to you to draw your own conclusions about that! But as I reflect on my nearly 40 years at the Bank of England I am increasingly conscious of the remarkable change that has occurred over that time – in fits and starts certainly but in the same general direction – from a heavily administered economic and financial system to one which is much more market based.

Even before I started at the Bank post-war controls had largely been dismantled. But the economic and financial system was still governed by all kinds of direct controls – exchange controls, credit ceilings – coupled with directional guidance, business restrictions – on the activities of building societies for example, the queuing of equity issuance, prices and incomes policies, public ownership of large parts of industry, and so on – all of which have now gone. It's true that plenty of regulation remains – reflecting public policy concerns relating to competition, consumer protection and systemic stability, for example. Indeed it has intensified in these areas. It's hard now to imagine that we had no formal banking supervision at all in this country until about twenty years ago. But for the most part such regulation today does not tell us what we can and cannot do, rather it sets the criteria that we must meet, and the behavioural standards we are expected to observe, in doing whatever it is that we choose to do. It leaves much more room for both consumer and producer choice, including producers from overseas, and much more room, and more incentive, therefore for competition and innovation.

Our experience in the UK is, of course, just part of a very much broader and continuing evolution internationally – often associated with increasing political democracy – from varying degrees of centralised administration to an increasingly open, market-based, approach in all parts of the world. It is this shift in favour of market-driven competition nationally, with its logical counterpart in increasingly free trade and the free movement of capital internationally, that is the driving force of globalisation.

The economic advantages of free market competition, and its extension internationally to free trade and the free movement of capital are familiar. Profitability is the best means we have so far discovered for directing resources – whether human or material or financial resources - into those activities in which they can be most productively employed. It provides a powerful incentive to increasing national and global economic efficiency – and the higher sustainable rate of growth we need to satisfy our aspirations for improving living standards – by encouraging the concentration of production on those businesses, or in those countries, which have, or are able to develop, a comparative advantage in particular products or services.

Now for most of us that is not intuitively true. Most of us, when we think of competition and market-driven resource allocation, think of it as a zero-sum game – like a football match. If one company – or one country – wins, then another one necessarily loses. And that is, of course, true at the micro-economic level. It explains

why existing producers – employees, or the businesses that employ them, or the countries in which they are employed – are often, very understandably, tempted to resist the opening of their markets to greater competition and look for protection.

But at the overall macro-economic level attempting to stem the tide by acquiescing in such protection would be to ignore the benefits which increased competition and more efficient and innovative production would bring to consumers generally; and it would be to shut off corresponding opportunities to potentially more efficient producers and their prospective employees and the countries in which they are located. It is often said that possession is nine–tenths of the law and in the present context it is certainly true that existing producers tend to be more vocal and often better organised than potential newcomers. But there is no doubt that market-driven competition is in our collective interest – whether at the national or the global level – and that where, at the micro-economic level, existing producers are unable to respond to greater competition, resources should be redeployed into activities where they do enjoy comparative advantage. I don't at all underestimate in this context the disruption and trauma that can result for individuals or even whole communities in declining businesses or sectors, but facilitating transition to new activities seems to me to be a more constructive and sustainable approach to addressing those very real problems than protection which can normally at best merely buy time. I have relatively little sympathy therefore for the protectionist strand of anti-globalisation protesters.

Potentially conflicting perceptions of the merits of competition, between the macro- and micro-economic standpoint at the national level, have a close parallel at the international level in potential conflict between perceptions of the national and the broader collective interest. And in that context it is remarkable how far we have come in moving towards free trade both regionally, within Europe and North America, for example, but also globally through the WTO.

I am particularly pleased that Dr Supachai Panitchpakdi, the Director General designate of the WTO is here with us this morning, and I should like to extend to him my warm congratulations on his prospective appointment and on the WTO's recent achievements in Doha.

The accession of China to the WTO just yesterday, after long negotiation, is a remarkable case in point. Because of China's sheer size and rapid pace of development freer access to world markets has been widely regarded as a particular competitive threat to existing producers elsewhere. What I think people have increasingly come to recognise is that – as is the case with any other country – every dollar – or yen – or euro – or pound – that China earns from international trade is necessarily recycled into the world economy through imports or outward investment (including the accumulation of foreign exchange reserves), making China not just an attractive supplier of goods to consumers in the rest of the world, but itself a potentially massive consumer of products and services in which the rest of the world retains a comparative advantage as well as a potential contributor to economic activity elsewhere. I have no doubt that China itself had similar concerns about opening its own market, but reached the same conclusion. From my perspective the inclusion of China, its closer integration into the world economy, is one of the most encouraging things that could possibly have happened, both for China itself and for all the rest of

us in what – at the macro-economic level – is a potentially powerful positive - not a zero-sum game. I am delighted that China is represented here today by Liu Mingkang. And I am sure that he will share my pleasure that this step is now taken; I congratulate him and his Chinese authorities.

But just as market efficiency can be frustrated by competitive distortions at the national level – which is why we regulate competitive behaviour – so too we need not just free but fair trade at the international level. I have a good deal more sympathy with those peaceful anti-globalisation protestors who seek to draw attention to significant distortions to free trade, which reflect vested interests at the national level, particularly where they operate against the interest of some of the less-developed nations. That concern seems to have been acknowledged in the Doha agreement to launch a new round of international trade talks and if it can be addressed in practise in the forthcoming negotiations it will be a major achievement. I can only wish Dr Panitchpakdi all possible success.

Despite the formidable practical obstacles the fundamental argument in favour of international free trade has long been widely accepted. That is less true of the parallel case for the international free movement of private capital, but here too we have seen enormous progress over the past decade or so.

The earlier hesitation was no doubt driven in part by nationalistic concerns about foreign ownership or control over the domestic economy – and I well remember the initial public anxiety about inward investment on these grounds in this country. But it was driven too by worries about how far it would be possible to rely upon access to overseas financial markets, and by fears of disruptive volatility.

The more recent massive increase in international private capital flows has been prompted in part from the supply side, encouraged by advances in communications technology, but there has been a growing recognition, too, of the benefits that can accrue to recipient countries in terms of their potential rate of growth.

But the risk of volatility remains – as was vividly demonstrated a few years ago by the Asian financial crisis and its aftermath. Yet perhaps the most remarkable thing about that experience was that it did not lead to a general retreat from capital account liberalisation – as one might have expected – but rather to a collective determination to improve the conditions within which the international capital markets operate in order to reduce the risks of recurrent crises.

And a great deal has been achieved through a concerted effort in the various international fora to define principles and best practice guidelines to that end. In terms of national policies such principles relate to everything from the legal, accounting, corporate governance and financial infrastructure, including emphasis on robust financial institutions; to stability-oriented macro-economic management, and sound internal and external debt structures; and to the sequencing of capital account liberalisation to encourage longer-term capital inflows, including foreign direct investment, into productive investment rather than excessive reliance on short-term borrowing to finance current expenditures. Particular emphasis is placed upon increased transparency to facilitate a more rational – and hopefully less volatile – assessment of risk by investors, including financial intermediaries, who in turn are

adopting more sophisticated risk management techniques with the watchful encouragement of their regulators. The focus of all this effort now is on implementation.

Where we have made less progress is in relation to the management of crises when they do occur, as inevitably they will from time to time. And the outstanding issue remains the respective roles of the official community and private sector creditors in such situations. But here, too, the debate has moved on. No one is talking now, if indeed they ever were, in terms of hard and fast rules – it is accepted that each situation will have its own distinctive characteristics. But it is now very generally recognised that official international support in a crisis cannot be unlimited, and that private creditors will normally need to be involved – on a voluntary basis certainly to the maximum feasible extent, but with the possibility of debt standstills in extreme cases to facilitate orderly resolution. What I think – and indeed very much hope – we are feeling our way towards is a presumptive framework within which borrowing countries as well as their creditors and investors have some reasonably clear idea of the limits to the official support they can realistically expect. Without that neither side can make a sensible assessment of the risks they are taking. The presumptive limits would need to be capable of being overridden in special cases, which would require individual justification, tough conditionality, and perhaps a super-normal majority vote in the IMF Board: to that extent there would still be a degree of "constructive ambiguity" in the arrangements. But there's a difference between that and the more damaging confusion I fear we have at present. And I find that many in the market place now share that view.

But in the meantime I have to say that I have been encouraged by the extent to which – since the dark days of the Asian financial crisis – financial markets have become more discriminating in their risk assessment, so that, for example, the real problems currently facing Argentina have had only a relatively limited impact on emerging markets as a whole.

But the most we can hope for is to reduce the risk of extreme and generalised financial market volatility. It is the essential nature – indeed the essential role – of financial markets continuously to reassess changing absolute and relative risks and adjust asset prices accordingly. And even the best informed and well regulated market, whether at the national or the international level, will exaggerate and overshoot, for reasons that can be difficult to understand. How else, for example, can we explain the puzzling persistence of the weakness of the euro, since its introduction, in foreign exchange markets. Or how else – given the sound macro-economic policies pursued in South Africa by Trevor Manuel and by Tito Mboweni, who was recently and deservedly nominated as Euromoney's Central Banker of the year, and who I'm delighted to welcome here - can we explain the recent weakness of the Rand, except possibly in terms of the political developments in Zimbabwe? No one could claim that the free flow of capital – whether nationally or internationally – is a perfect, or infallible, guide to the efficient allocation of financial resources. The question is whether there's a better way, and the growing international consensus in favour of the free movement of capital suggests that there isn't.

Globalisation, in the sense that I have described it – national policies directed to market competition (subject to regulation to protect public policy concerns) together

with freer (and fairer) international trade, and the freer international movement of capital (within an orderly policy framework) – is in my view a very positive environment for growth in the world economy, once we have come through the present cyclical slowdown as we certainly will. That makes it a positive environment, too, for the international maritime, financial and other services based here in the City of London which you will be discussing later today and tomorrow. I will not say more about that, except to say that we are uniquely well placed to respond to the challenges of the increasing global emphasis on free, but properly and fairly regulated, competition – as indeed we have done in the past. And in doing so we will make a strong contribution to increasing global prosperity.

Let me conclude with one final comment on globalisation. Whatever the impact of greater – properly regulated – competition on our economies as a whole, we cannot ignore the fact that the benefits do not extend to every sector of our society. At the global level – and it is here that I think some of the peaceful anti-globalisation protestors have a real point – many of the poorest, least-developed countries are effectively excluded. I like to think that – alongside globalisation as I have described it – there is genuinely increasingly recognition of the need to help those countries ready to help themselves, to move towards more effective inclusion. I was encouraged by the recent meeting of the IMFC in Ottawa, chaired by the Chancellor, Gordon Brown, which tasked the IMF in close collaboration with the World Bank to respond proactively to the needs of the low–income and heavily indebted poor countries through additional concessional financing and debt relief – explicitly acknowledging the special responsibility of the advanced economies in tackling the challenge of poverty reduction. It is clearly in our collective international interest that we make parallel progress in that direction.

And, of course, the same issue of exclusion, of the disadvantaged and those in severe poverty, arises for all of us at the national level. It is easy to pass that off as the business of government. But the private sector has increasingly recognised in recent years that it, too, has an important part to play in helping to address these problems – partly out of a sense of corporate social responsibility but also as a matter of business self interest.

City institutions have a long – established tradition of charitable involvement, including involvement with the disadvantaged local communities that are on our doorstep in the neighbouring boroughs. It was to encourage this kind of involvement that we launched the Heart of the City campaign just over a year ago, and I should like to take this opportunity to express publicly my gratitude to Andrew Buxton – who will be speaking to you tomorrow – for the work he is doing in carrying that campaign forward. I'm sure he would be delighted to hear from any of you who might be interested in becoming more involved!

Mr Chairman, let me conclude with one final reflection. We all tend to be impatient when looking for progress, and certainly in relation to globalisation we seem to move forward at only a snail's pace. But I am told that a snail can move at some 16 centimetres a minute – which would mean some 3,650 kilometres in 40 years if only the snail kept going. I am actually quite encouraged at the distance we have come – and by the thought that our snail might actually have been moving forward more

rapidly in the past few years. But it certainly does need to keep going – there's still a long way to go.