

General Debate – Geneva, 25 July 2008

Panel 1: A sustainable and inclusive globalisation

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“Multilateralism and the growth of economies; the need for international sectoral organizations”

1. I am pleased to participate in this important session. Our theme today is one that is particularly interesting, because we can all learn from further discussion of the benefits and the challenges of globalization. Debate such as this furthers the understanding of the issues, and so I congratulate the organizers for bringing us together today.

2. Postal services were contributing to globalization centuries before the term was introduced, and they continue to have a positive role in the world economy. By bringing the world closer, postal services facilitate the expansion of domestic and international trade and the movement of workers, thus contributing importantly to economic growth and welfare. My remarks will focus on the benefits and challenges of a world that is rapidly integrating through globalization, the role that the IMF plays in maximizing the benefits and minimizing the risks, and the importance of policy coherence amongst international institutions.

Globalization aids economic growth and price stability—but also brings challenges

3. ‘Globalization’ can mean something different to each of us, so let me specify what I have in mind: the increasing integration of economies in the world, particularly through the international flow of goods, services, and capital—and, increasingly, people (labor) and knowledge (technology and information). Economic globalization is a historical process, driven mainly by invention and innovation, as well as economic policy. But it is not irreversible: World War I and the policies that followed triggered decades of *dis*-integration.

4. Of late, however, the process of globalization is thriving. Between 1980 and 2007, the ratio of goods and services trade to global GDP has risen from about 42 to 62 percent, while foreign direct investment has risen from some 6 to 32 percent. And the stock of international bank loans and other financial claims have risen from about 10 to 48 percent. These are formidable numbers for such a relatively short period of time.

5. This integration of markets has brought about the more effective use of scarce global resources, with enhanced economic growth and increased employment and job quality. For individuals, this has meant higher incomes, more variety for consumers, and better access to education, health care, and other services. Particularly with the development of the emerging Asian economies, globalization has helped dampen price pressures. As you all know, price stability and low inflation rates are especially important to the poor.

6. But with these benefits come important challenges. Global macroeconomic imbalances highlight that increased financial flows can be associated with increased vulnerability, as we have seen with the recent financial crisis. And with closer ties among countries, change in one region is more easily and more rapidly transmitted to other regions, as we are witnessing now with the boom in food and fuel prices. Rapid globalization has in many countries also coincided with rising income inequality, although research at the IMF and elsewhere indicates that this mainly reflects the direct impact of technological change on inequality. Trade and foreign investment flows themselves have had neither a clear negative, nor a clear positive, impact on inequality.¹

7. One thing that is clear, however, is that the benefits of globalization need to be spread more widely. Maximizing these benefits, ensuring that more people gain, and harnessing technology and

¹ The IMF’s Autumn 2007 WEO found that *trade* globalization was associated with lower inequality but that *financial* globalization—FDI, in particular—was associated with more inequality. Still, data limitations make it difficult to clearly distinguish the effects of technology from those of financial globalization.

economic integration to help meet poverty reduction goals are among the most critical challenges we face. Something else that is clear is that the problems of tomorrow are likely to be truly global. Their solutions need to be global, too, and are best achieved in multilateral fora.

How the IMF is helping to meet the challenges of globalization

8. At the IMF, we have refocused our efforts as we adapt to a changing world. Our guiding principle is to be responsive to members' needs, focusing on our areas of expertise. In fulfilling that strategic direction, we are taking several steps to help countries make the most from globalization, while minimizing the associated risks.

9. *First, we have modernized and strengthened our macroeconomic surveillance activities:* globalization brings a need for more frequent cross-country coordination and we are doing this through a new mechanism of "multilateral consultations." Our recent "Multilateral Consultation on Global Imbalances" was the first example of this particular form of dialogue, and the policy formats reached last year remain relevant today. We are also strengthening our work on macro economic and financial sector linkages.

10. Greater trade and financial flows are further enhancing the importance of exchange rates to Fund surveillance. With the IMF Executive Board's new *2007 Decision on Bilateral Surveillance over Members' Policies*, IMF work on exchange rates has even greater prominence and IMF bilateral surveillance is given more focus and clarity.

11. *Second, we are reviewing IMF lending facilities to better reflect the reality of globalization—*particularly the fact that private capital flows are larger and more rapid than ever before, with more and more countries borrowing commercially. In particular:

- We are exploring new crisis prevention instruments of particular relevance to emerging market countries.
- We are reviewing our Exogenous Shocks Facility (ESF) with a view to streamlining requirements and facilitating more rapid disbursements. This will help us provide quick, effective assistance to low-income countries adjusting to external developments beyond their control, such as commodity price fluctuations.
- We developed the Policy Support Instrument (PSI) for low-income countries that neither want nor need IMF financial support, but want to benefit from our policy advice, and where an IMF endorsement of their policies gives a positive signal to prospective creditors or donors. We will review our experience with the PSI to see whether we can make it even more effective.

12. In this context, let me say a few words specifically about the ongoing global food and fuel price crisis—which poses both medium-term and urgent challenges. Characteristically, the IMF, within its mandate, is providing analysis, policy advice, and financial assistance.

- At a time when policymakers are balancing the risks of a slowdown in growth against those of a rise in inflation, fed by commodity prices, we can assist in understanding the macro-financial linkages and exploring appropriate policy options to each country.
- To help with immediate needs, we are providing financial support—in this case, principally through concessional financing under the PRGF. Of those countries most vulnerable to the crisis, about half had an IMF-supported program in place. We have formally approved increased financing for seven of those (as of end-June), and are in the process of approving additional resources for several others.

13. *The third way that we are helping to meet the challenges of globalization is through an increased emphasis on financial sector issues in bilateral, regional, and multilateral surveillance work.* The analysis of financial sector vulnerabilities has become an integral part of the Fund's macroeconomic analysis and policy advice for individual countries. The Financial Sector Assessment Program, run jointly with the World Bank, has been used by two-thirds of our members to identify vulnerabilities in their financial systems.

14. *Fourth, the Fund is working to support nondiscriminatory trade reform, which is a vital part of the broader strategy for sharing the benefits of globalization more widely.* Industrialized countries need to further open their markets, particularly for those labor-intensive goods and services that are of most interest to low-income countries. Developing countries must continue their own trade reforms if they are to exploit existing and new opportunities to export to the industrialized economies—and to expand South-South trade. In this regard, the IMF provides policy advice and technical assistance to individual countries to facilitate trade reform. And, on the global stage, the IMF vigorously supports an ambitious conclusion of the WTO Doha Round. In complement to trade reforms, greater and better trade-related assistance to developing countries under the “Aid for Trade” initiative will help them to share more fully in the benefits of globalization.

15. *Finally, to promote a more inclusive globalization for developing countries, our work often goes beyond those activities that I just mentioned.* For example:

- The HIPC and Multilateral Debt Relief Initiatives have created fiscal space for poverty-reducing expenditures, such as in health and education.
- Fund-supported programs are taking into account the full spending and absorption of aid, consistent with countries’ macroeconomic stability.
- The Fund continues to assist countries in building efficient and accountable institutions through technical assistance and the training of public officials.
- It also provides special assistance to fragile states and post-conflict countries to re-establish institutions and restore the conditions for poverty reduction and growth.

Policy coherence and the roles of international organizations

16. The entire international community, and international organizations in particular, has an important role in meeting the opportunities and challenges of globalization. Each institution should contribute in its area of expertise, with minimal duplication of effort. We must also be well aware of each other’s activities and policy advice to member countries. I am pleased to share this occasion with Director-General Pascal Lamy of the WTO. Our effective cooperation with the WTO—formal and informal, and at both the staff and management levels—demonstrates how we can work together to ensure that each international institution best complements the others in an effective and coherent system.

17. The Universal Postal Union and other sectoral organizations are an important part of this system, and contribute in their unique ways to spreading the benefits of globalization. The work of the Standards Board and other entities of the UPU, for example, facilitates a wider choice of international postal services that are faster and more cost effective. Because the Post is the most widely-used method of sending small quantities of goods across international borders, the work of the UPU helps to make a wider variety of goods available more cheaply to consumers and small businesses that might not otherwise benefit from them. In helping to facilitate communication and exchange among some of the more isolated places of the world, the UPU contributes to one of globalization’s most positive aspects.

18. From my perspective as an economist, the UPU’s work is a good example of reducing the costs of trade. And recent macroeconomic thinking emphasizes how reducing trade costs contributes not only to more trade and higher economic welfare, but to macro economic stability and more effective macro economic policy management. So I applaud your work—not only as an appreciative consumer of postal services, but also as an economist.