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Statement by Mr. Brown

Statement by Rt. Hon. Gordon Brown
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Introduction

This weekend's meetings come at a critical time for the world economy. The global recovery has strengthened over the past year, led by North America and Asia. But this strong growth has been accompanied by further increases in global imbalances and new risks to the recovery.

The most significant risk in the short-term comes from high and rising oil prices. The Brent / WTI oil price, having reached $46/50 a barrel in recent days, has doubled since April 2003 and increased from below $30/35 a barrel since February this year and from below $20 / 20 a barrel since early 2002.

In the short-term high oil prices are dampening consumer spending and company profitability. If high prices persist, the consequences could become more serious, denting confidence and pushing up inflationary pressures.

The impact on the world economy of high oil prices is being combined with continuing global imbalances, making the global recovery vulnerable and threatening its sustainability into the medium term.

Growth remains uneven. The consensus forecast is for the euro zone to grow by 1.8 per cent this year, with domestic demand even weaker, compared with over four per cent growth in the US and Japan. And since the euro zone has grown by 3 per cent or more in just one of the last ten years, while the us has averaged more than 3 per cent, this is not just a short-term concern, but one in which risks are rising cumulatively.

And in Asia, China has been a powerful locomotive for growth. But inflationary pressures have picked up over the past year in China, presenting new challenges for the authorities in engineering a gradual moderation in growth to hold back inflationary pressures. And the strength of growth in China has pushed up commodity prices worldwide, adding to inflationary pressures generated by oil.

Japan has benefited from China's strength but remains exposed to corporate and financial sector imbalances and weaknesses.

This unevenness of growth across the continents is a continuing concern and is a key factor behind widening global current account imbalances. For what some in Europe call the US current account problem, others in the US call the European growth problem. All share responsibility, and stand to benefit, in redressing these imbalances.

So faced with these global uncertainties and risks, we must be vigilant and stand ready to take the necessary actions to maintain the momentum of the recovery and create the conditions for stability and sustainable growth. This requires action to:

- First, promote stability in oil markets;
- Second, continue to adopt a forward-looking approach to monetary and fiscal policy;
- Third, push ahead with structural reform, especially in Europe;
- And fourth, reach final agreement on a new trade round;

Economic stability

For rich and poor countries alike, stability is a precondition for global prosperity and growth, and all major economies —Japan, America and Europe—will be asked this weekend what contribution their continent can make, not just to further strengthen growth now, but to create the conditions for sustained long-term prosperity.

With supportive monetary and fiscal policies, growth has picked up sharply in some major economies. The UK has experienced the longest sustained expansion on record, growing continuously throughout the global downturn, and with unemployment close to the lowest level since the 1970s. We remain on track for stronger growth with strengthening business investment, manufacturing output and exports and continued low inflation. The World Economic Outlook forecast growth for the UK for this year of 3.4 per cent in line with the UK Budget and PBR forecasts.

Europe must in particular demonstrate further sustained progress with the necessary structural reforms to enhance growth potential and increase resilience to shocks—embracing flexibility for labour markets, liberalisation in capital and product markets, and tax competition in place of tax harmonisation—in short a new growth agenda, strengthening competition, increasing innovation and enterprise, increasing investment, raising employment and improving skills, to respond to the new challenges of globalisation.
With favourable financial market conditions, now is the time also to focus on structural reform and improved debt management in emerging markets.

It is important that we use this opportunity to identify vulnerabilities, address weaknesses and provide candid advice on policy reforms going forward. Effective international surveillance and multilateral cooperation are essential tools for achieving this, strengthening crisis prevention, and so promoting stability and sustainable global growth.

In Dubai we set out issues of particular concern for surveillance over the year – progress on structural reform and on sustainable fiscal frameworks; reducing balance sheet vulnerabilities, including currency mismatches, and improving debt sustainability; and encouraging policy measures to reduce global imbalances – giving a sharper focus to the surveillance of key vulnerabilities. This remit must continue to respond to changing conditions in the coming period, and focus on the key risks to the global economic recovery, including: the impact of high oil prices and worsening terms of trade, especially on the most vulnerable; the sustainability of medium term fiscal positions and debt in many members; and managing the policy response to inflationary pressures.

High and volatile oil prices pose a key risk to the outlook, dampening consumer spending and company profitability. If high prices persist, the consequences could become more serious, denting confidence and pushing up inflationary pressures. We believe that there are four steps that must now be taken now to reduce this risk.

- First, that while OPEC has responded to earlier calls for action by increasing supplies, oil stocks remain low with only limited spare production capacity available. Oil prices remain high and volatile. So OPEC must continue to take the necessary action to return oil prices to levels consistent with global economic prosperity.

- Second, action must also be taken to improve the functioning of the oil market to ensure lower and more stable prices over the medium term. That is why we are calling for actions to improve the transparency and efficiency of the oil market. A lack of transparency in oil markets and poor quality information contributes to volatility and uncertainties. There must be renewed co-operation between oil producers, consumers and market participants to ensure oil market decisions are based on timely, reliable and transparent information. There should be an enhanced role for the IMF and the World Bank, building on their experience with improving data and Codes and Standards, in encouraging better and more timely information.

- Third, more needs to be done to encourage the investment that is required to guarantee the stability of supply needed to maintain global growth, including from non-OPEC countries. Concerted action is needed by oil producing countries to promote sustainable investment in their reserves and productive capacity, consistent with their wider development goals. Oil producers also need to make more use of the Fund and Bank's experience to improve their investment frameworks.

- Fourth, all countries need to do more to promote greater energy efficiency and develop new sources of energy. This is why international co-operation on tackling climate change will be a key theme of our G8 presidency.

This meeting offers a window of opportunity. It is essential that we address the medium-term challenges facing the international financial community.

- Promoting the conditions for stability and growth, and further strengthening the mechanisms for crisis prevention and crisis resolution;

- Calling for an ambitious resolution of the trade talks as soon as possible to secure concrete progress with multilateral trade liberalisation and deliver on the commitments made at Doha;
- Creating the right domestic conditions for investment and stability;
- Confronting the global war against poverty and addressing the urgent challenge of achieving the Millennium Development Goals, including the need to double aid through the International Finance Facility.

Crisis prevention and resolution

Just as we have set down a new rules-based system for the UK, for a new monetary and fiscal regime, we should establish a new rules based system of governance in the international financial community. This should be based on clear procedures, with all countries, rich and poor, pursuing agreed codes and standards for monetary and fiscal transparency and for corporate governance. We strongly welcome the progress that the Fund and the Bank have made in implementing the Codes and Standards initiative and in improving transparency. We must continue to do more to enable all countries to participate.

Effective and persuasive surveillance is essential for all member countries. We welcome the Fund's considerable progress on reforms to strengthen surveillance, including through the Biennial Review of Surveillance – both improving the analytical context of surveillance, including ensuring an objective framework for debt sustainability analysis and refining vulnerability assessments; and introducing practical measures to strengthen surveillance in programme countries and ensure that surveillance benefits from the "fresh pair of eyes". Yet significant challenges remain, and we will need to monitor carefully their implementation and impact.

More broadly, I believe there is a strong case for further institutional reforms to ensure that the IMF is as credible and independent from political influence in its surveillance of economies as an independent central bank is in the operation of monetary policy. We must implement reforms to ensure greater independence and accountability. As a first step, to enhance the credibility of Fund analysis and to improve the internal transparency of IMF decision-making, Fund management should bring forward proposals to make debt sustainability analysis independent of other operational decisions within the Fund.

It is important to ensure that surveillance impacts effectively on decisions made by programme and non-programme countries alike. In this respect, we continue to believe in the importance of providing incentives for countries to put in place strong policies and precautionary support to those members with strong policy frameworks in dealing with the impact of external shocks. The Fund should continue its work in developing appropriate crisis prevention facilities for its members. Precautionary programmes are a very successful mechanism, and further consideration should be given to precautionary PRGF facilities.

At the same time, we support further work on the Fund’s signalling role, including outreach with countries and donors. A signalling tool could be a useful complement to existing instruments and surveillance for those countries that have successfully stabilised their macroeconomic positions and wish to graduate from IMF programmes.

On crisis resolution, we very much welcome the widespread introduction of collective action clauses, and encourage their further use. We support the ongoing work by issuing countries and their creditors towards developing a code of good conduct. We encourage the fund to continue to strengthen its analysis of debt sustainability and balance sheet vulnerabilities. And we welcome the ongoing work by the IMF on issues relating to crisis resolution.

Under this new framework we can more to a new paradigm: systems that in themselves diminish the likelihood of crises; earlier awareness as difficulties arise; and more measured and orderly responses when crises have to be resolved.

Trade

The international community must make urgent progress on trade and development. We must reaffirm our full political commitment to a multilateral approach to trade liberalisation, and to making substantial and concrete progress. A speedy pro-poor conclusion of the Doha round is vital for global growth and our development objectives. It should focus on the core issues of importance to developing countries of open and fair markets, especially in agriculture. This will be critical for demonstrating the international community's continued commitment to multilateral co-operation, supporting higher growth and financial stability, and enabling developing countries to participate on fair terms in the world economy

We all know the damage rich countries protectionism has done to entrench the poverty of the poorest countries. And achieving the pro-poor agreement promised at Doha could give rise to gains for developing countries of as much as 350 billion dollars with 140 million people lifted out of poverty.

So it is vital that we build on the progress made this summer in Geneva by adopting the flexibility needed to make real advances in trade negotiations - pushing forward the development objectives of Doha, opening our markets and removing trade distorting subsidies.

In particular, when 900 million people working on the land in poor countries struggle to survive each day on less than 1 dollar while rich countries spend 900 million dollars each day subsidising agriculture – and when ending the rich countries’ agricultural barriers and trade-distorting subsidies could raise the income of farmers in developing countries as much as 75 billion dollars each year – significantly more than total annual aid flows – and benefit our own economies by as much as 100 billion dollars each year, we must do more to urgently tackle the scandal and waste of our agricultural policies.

In Geneva this summer we agreed to phase out all forms of agricultural export subsidies. We now need to make this commitment a reality. And we should also look urgently at phasing out, not just export subsidies, but import tariffs and other production linked support.

The way forward is both for developed countries to commit to tackling this scandal of agricultural protectionism and – because we know from a World Bank study that twenty four of the poorest countries cannot benefit from access to trade without the capacity to trade - also to provide support, including finance, to developing countries so that they can sequence their development ----- building, with investment in infrastructure, education and development generally, the capacity they need to trade.

Developing country governments themselves recognise that it is important to create the right domestic conditions for trade and commerce – a stable economic environment, improved infrastructure, and sound legal processes that strengthen property rights and deter corruption. At the same time it is right that developing countries should also be able to carefully design and sequence trade reform into their poverty reduction strategies so that trade does not undermine development.

We recognise that not all countries will benefit in the short term from a reduction in trade barriers, and that for some the transitional costs of preference erosion will be substantial. We welcome the IMF's initiative in establishing a new facility to help countries, which face balance of payments problems as a result of trade adjustments. We should seriously consider supplementing this with additional grant resources, designed to help the most vulnerable countries adapt and reap the benefits of more open global markets.

And because we know from our own experience that, for individual families, opening up to trade can bring hardship as well as opportunity, we also need to ensure that developing countries have the resources to support and protect their most vulnerable people to prevent them falling into poverty.

Creating the conditions for productive investment

To ensure growth and development we must take steps to promote domestic and foreign investment—and find better ways for public and private sectors to work together in raising the level and quality of investment.

Because investment will flow to those countries that are the most stable, and ever more rapidly away from those where the environment for business is volatile and uncertain, there is an even greater premium than before on governments running a successful monetary and fiscal regime to achieve high and stable levels of growth and employment over the long term. This is true for all countries, industrialised and developing.

Less than 5 per cent of total flows of foreign direct investment go to the least developed countries. Domestically generated savings and investment barely match foreign capital inflows – and the savings that do exist often leave the country in capital flight. That is why country-owned poverty reduction strategies must focus on creating the right domestic conditions for investment and commerce – with the IMF, World Bank and developed countries providing direct support to help create a stable economic environment, improved infrastructure, and sound legal processes that strengthen property rights and deter corruption.

Achieving the Millennium Development Goals

Stability, trade and investment are all vital but there cannot be a solution to the problems that developing countries face without a fourth reform: a substantial transfer of additional resources from the richest to the poorest countries, in the form of investment for development, that builds new capacity to compete and addresses the long term causes of poverty.

2005 is a crucial, defining year; a year of challenge but also a year of opportunity.

Five years before, in an historic declaration - in perhaps the most significant international commitment of recent decades - every world leader, every major international body, almost every single country, signed up to the historic shared task of meeting over fifteen years eight millennium development goals ---- an extraordinary plan to definitively right some of the great wrongs of our time, at the heart of which is a clear commitment to ensuring education for every child, the elimination of avoidable infant and maternal deaths, and the halving of poverty

Next year, 2005, is the first date that the first target comes due.

But we know already that the first target to be set and to be met – the 2005 target that ensures for girls the same opportunities in primary and secondary education as boys - is going to be missed.

And we know that without action, we will not meet our goals in 2015, not even 2050, but 2150.

Put simply, our proposal is that in return for developing countries developing their own country owned, community owned poverty reduction plans to expand their own development, investment and trade, and eliminate corruption, the richest countries commit to provide long-term, predictable and effective aid as investment to the countries that need it most. Our aid is increasingly provided in support of poverty reduction strategies, which are leading to improvements in the policies of developing countries and in the focus of donor support. We welcome the Fund's ongoing efforts to align the PRGF behind the PRSP and in support of the MDGs, early work on a long-term role for the fund in low-income countries, and we look forward to their continuing work on ensuring that there is adequate financing for PRGF arrangements, and on further streamlining and focusing conditionality.

So for the richest countries: it will mean new responsibilities - to open our markets and to curb protectionism and to transfer resources – but also new opportunities - increased trade and a globalisation that also means both security and justice on a global scale.

For the poorest countries: new responsibilities - to pursue transparent, corruption-free policies for stability and a carefully sequenced opening up of investment and trade to deliver economic growth - and new opportunities – with the capacity for increased growth and trade and a transfer of resources from rich to poor to tackle long standing problems of ill-health, illiteracy, poverty and underdevelopment

And this means doing more on debt relief, education, health and HIV/AIDS. And it means looking seriously at the UK proposal for an International Finance Facility.

While 27 countries have been freed from the burden of unpayable debt; while 70 billion dollars is being written off; and while debt payments are down from an average of nearly 30 per cent of national income to 11 per cent, and with 65 per cent of resources released from debt relief now going to health and education, we can do more - not least for countries facing sharp falls in the price of key export commodities and higher net debt: export ratios which, amongst other things, prevent an exit from unsustainable debt.

So we will work together to ensure the completion of the HIPC initiative – to extend the sunset clause to 2006, making it possible for further countries to benefit from HIPC debt relief; to achieve more effective topping up at completion point; to encourage all other creditors to participate; and to ensure that the initiative is securely and fully financed.

And to avoid a return to unsustainable debt we support the new IMF/World Bank forward looking framework for debt sustainability analysis, with the Bank and the Fund making joint assessments to give countries clear advice on how to finance progress towards the MDGs.

But when many countries are still being forced to choose between servicing their debts and making the investments in health, education and infrastructure that would allow them to achieve the Millennium Development Goals, we know we must do more.

Whilst today 100 per cent of bilateral debt of the poorest countries is cancelled by many donors, in practice only 50 per cent or less of multilateral debt is being cancelled. That is why the UK is proposing to the international community:

- That we match bilateral debt relief of up to 100 per cent with multilateral debt relief of up to 100 per cent

- And that we finance this properly --- not by reducing aid elsewhere as some have done in the past or by running down the resources of the international financial institutions but by providing additional funds that will guarantee increased resources for poverty reduction.

So to do more to complete the process of debt relief, we propose to the international community that we consider anew all options to finance further debt relief for the poorest countries, including making better use of IMF gold, through revaluation or off-market transactions to finance the cancellation of debt owed to the IMF.

And we should fund the provision of up to 100 per cent relief on the debt owed to the World Bank and African Development Bank through new commitments from all donors.

Although there is no international agreement yet, the UK will lead the way in relieving those countries still under the burden of this debt by paying our share – 10 per cent – of their payments to the World Bank and African Development Bank in their stead. And we will both deepen and widen our debt relief as we will pay our share on behalf not just of HIPCs but – because their need is just as great – of all low income countries, as long as they can ensure debt relief is used for poverty reduction. And we urge other governments to follow us in this.

Now it is also clear that if debt is to be kept sustainable in the future, we will need to provide developing countries not just with more debt relief but with more aid for education, health and poverty reduction in the form of grants. And that is why the UK is not only urging all countries to move towards the target of 0.7 per cent but to look seriously at our proposal for an International Finance Facility.

So building on record increases in aid since 1997, in the Spending Review we announced that UK Official Development Assistance will rise to 0.39 per cent next year, 0.42 per cent in 2006-07, to 0.47 per cent in 2007-08. We wish to maintain those rates of growth in the overseas aid ratio, which on this timetable would rise beyond 0.5 per cent after 2008 and reach 0.7 per cent by 2013.

But we know that even if one or two of the richest countries could overcome fiscal constraints and go to 0.7 per cent tomorrow, we still would not reach the scale of resources needed to begin to achieve the Millennium Development Goals - $50 billion extra a year.

That is why we have put forward our proposal for an International Finance Facility, a complement to our commitments to 0.7, to increase the resources available for the poorest countries now, when they are so urgently needed.

The IFF - an annual fund of $50 billion - front-loads future aid commitments. The Facility is founded upon long-term, binding donor commitments from the richest countries. It builds upon the additional $16 billion already pledged at Monterrey. And it leverages in additional money from the international capital markets to raise the amount of development aid for the years to 2015. An additional $50 billion each year until 2015 that will allow us to attack the root causes of poverty not just the symptoms, and it is essential to make progress in meeting the Millennium Development Goals.

The IFF will enable us to deploy a critical mass of predictable, stable and co-ordinated aid as investment over the next few years when it will have the most impact on achieving the targets – saving lives today that would otherwise be lost. And it will enable us to invest simultaneously across health, education and economic development so that the impact on investment in one area reinforces the investment in another.

The advantage of the International Finance Facility is not just that it is a better means of providing the necessary resources immediately, but also that unlike other long-term measures like taxes - where all countries must impose it or it can work for none - the IFF can proceed with a core group of countries.

I thank the growing number of countries who have indicated support for the IFF. We also welcome the report by IMF and World Bank on the IFF confirming its technical feasibility and noting that the Facility is the most advanced proposal to frontload aid.

I now ask all Governments to look seriously at the IFF alongside further work exploring the longer term options set out in the Landau Report and the Report on Action Against Poverty and Hunger, which were discussed in New York earlier this month.

Next year - 2005, 5 years on from the Millennium Development Goals – will be a crucial, defining year: a year of challenge and a year of opportunity; when the richest countries must redeem their promises to the poorest countries and work together to build a virtuous circle of debt relief, poverty reduction, trade and economic development.