International Monetary and Financial Committee

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Statement by Gordon Brown
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On behalf of United Kingdom

UK statement to the IMFC

Gordon Brown, Chancellor of the Exchequer and UK Governor of the IMF

We are meeting in Singapore at a time of global economic opportunity. World growth is strong, not least because of continued rapid expansion here in Asia. But there are also heightened global risks:

- Global economic imbalances persist and the threat of their unwinding in an uncontrolled way remains;

- Global inflation is rising with upward revisions to over half of all country forecasts in the IMF WEO;

- Further sustained rises in oil and energy prices since the Spring Meetings creates risks to world growth;

- The stalling of the Doha round of world trade talks.

It is vital that all of us - global institutions, politicians and business - rise to these challenges. We must make the case confidently for the benefits of globalisation, and commit to policies that maximise globalisation's benefits and minimise its risks – to ensure sustained growth and prosperity for all countries.

The UK has set out a progressive approach to reform. To make globalisation work we must show that the route to prosperity lies not in isolationism and protectionism but in greater global economic openness. Prosperity is greatest in outward-looking trading nations, not closed economies. And we look to the world delivering a shared consensus on how best we cope with globalisation.

First, we need to urgently push forward a trade agreement.

With the stalling of the Doha round of world trade talks we are seeing a much wider rise of protectionist feeling.

Without trade growth, the world will be poorer. World Bank estimates suggest further trade reform could lift up to 95 million people out of extreme poverty, making trade growth far from a zero sum game with positive benefits for both rich and poor. Countries stand to benefit from an extra $300 billion in world growth every year.

Our proposal is for least developed countries to decide, plan and sequence reforms to their trade policies in line with their country-led development programmes and international obligations.

The UK calls for bold leadership and a new willingness from pro-free trade leaders in both government and business to revive the negotiations.

Without some compensating mechanism the benefits of trade liberalisation are spread unevenly between countries. Support for the capacity to trade through funding for infrastructure and communications is essential to help developing countries participate effectively and fairly in the global trading system. As US Treasury Secretary, Hank Paulson, has said we must think creatively about how to help those who fall behind.

Before the WTO ministerial in Hong Kong in December 2005, rich countries made 'aid for trade' pledges. The UK alone committed to spend £100m a year by 2010 on the institutions and people needed to support trade. Our total support for aid for trade, including support for infrastructure – like roads, ports, power and telecommunications – is expected to increase by 50% by 2010/11. This would equate to $750m a year in 2010. Together European countries and the European Commission will increase assistance to a total of €2 billion a year by 2010. Japan has promised us$10 billion over three years and the US a total of us$2.7 billion a year by 2010.

The UK calls for all countries to turn their commitments into concrete and credible financing, within a new 'aid for trade' framework which cuts red tape and builds the infrastructure that businesses in poor countries need to compete. This allows the developing world to see the trade regime as fair, turn the rhetoric of Doha into positive progress, and address the critics of globalisation by showing all countries can share its benefits.

The Fund and the Bank continue to have an important role in taking this agenda forward.

Second, we need to make our global institutions fit for the challenges ahead. The international financial community learned valuable lessons following the Asian crisis. That was why we saw an effort unprecedented in recent times to reform and galvanise the international system.

- Global institutions can only be effective if they have legitimacy and credibility with its membership. As the shape of the global economy changes one of the central challenges for all international organisations is to respond to these changes. The UK welcomes progress on the next stage of reform: the two-year <u>quota reform</u> package for the IMF that is currently with the governors. It is vital that the IMF takes the lead in showing it can adjust its governance to reflect rapid global economic change. This package contains an immediate quota allocation to quickly correct the most extreme imbalances and agreement to embark on fundamental reforms of the quota system over the next two years. And to ensure the continuing effectiveness and legitimacy of the fund the UK will continue to push for an increase in developing country share and at least tripling the basic vote for Africa as well as a more transparent system for calculating an IMF members' quota share.

- At the Spring meetings, ministers agreed that IMF surveillance needed to be reformed to keep pace with the global, multilateral nature of today's economies.

- In the modern, increasingly integrated global economy, the primary role of surveillance should be on supporting IMF members' shared objective of maintaining the stability of the global economy. So surveillance – the Fund's analysis of the national economic policies – needs to focus more clearly on managing the global implications of national policy. This requires a strengthened framework to provide the incentives to the Fund to produce accurate, persuasive and influential surveillance, based on high-quality analysis and candid assessment.

- A long standing objective for the UK has been to see surveillance strengthened by making it more independent and objective. The IMF have made good progress on this issue in recent years but we continue to believe that institutional reform at the IMF may be needed to more clearly delineate surveillance and lending activities.

- The UK thinks it is right that the IMF should consider a new surveillance decision to focus on policies that support external stability. We also support an annual remit which bases surveillance on each country's policy frameworks. Together, these reforms will make IMF surveillance more transparent, independent and credible while still being accountable to fund members, thereby helping countries to recognise that international cooperation can yield more than talk but also policy improvement.

- The IMF and World Bank also play a critical role in the anti-money laundering and counter terrorist financing framework and they should ensure that they maintain their commitment to this area of work. The UK therefore will propose that they strengthen their joint-work with the financial action task force to focus its delivery of technical assistance to where its impact is greatest, particularly in those jurisdictions that have failed to recognise international standards.

Third, we need to show we can mitigate the impacts of globalisation that do create hardship and insecurity. Developed countries must continue to support developing countries in their structural reforms, creation of security nets and help finance their infrastructure and investment in their people.

Education in particular is vital to a country's future. Empowering people through education is at the heart of poverty reduction and fighting pandemic diseases such as AIDS and creating the skills and ability to participate in a global economy. Yet every day more than 100 million primary children do not go to school. More than half of the world's out-of-school children are girls, and eight out of ten live in South Asia or sub-Saharan Africa. Achieving the education Millennium Development Goals (MDGs) needs to be addressed as a matter of urgency. Rich and poor countries must work together to ensure that by all children, irrespective of birth or gender, can have the opportunity to fulfil their potential through education.

To achieve a step change in health, education and growth, last year the world community pledged to deliver an additional $50 billion of aid. As a key donor and key contributor to the additional $50 billion promised in 2015, the UK set an example by committing to spend at least $15 billion on aid for education over the next ten years. But too often the key constraint for developing countries is not just the volume of resources – but whether they are predictable and long-term to enable them to take on recurrent financial obligations, such as teachers salaries. So in April in Mozambique, President Guebuza, President Mandela and Graca Michel launched a global campaign for children's education – setting out the need for long term and predictable financing. Building on this in May in Abuja, African Finance and Education Ministers, committed to developing 10-year education plans and to present their progress at the Annual Meetings. 15 African countries have now completed fully costed, ambitious plans. On Sunday they will be publishing detailed summaries of these plans. Implementation will reduce by 50 per cent the number of African children not receiving schooling. 25 million children going to school who would not have done. We need to make sure that these plans are matched to the financing commitments made by donors. So, the UK calls for an international donor conference to achieve that.

This year we have made significant progress in launching the International Finance Facility for Immunisation, which will provide $4 billion to prevent 5 million childhood deaths. The UK also calls for the launch of the first pilot advance market commitment (AMC) before the end of the year. AMCs are a powerful market-based mechanism to accelerate the development and availability of priority new vaccines against diseases, like malaria, TB, aids and pneumococcus, which kill millions of people in developing countries each year. For example, pneumococcal disease kills 1.6 million people a year, most of them children. A successful AMC for a pneumococcal vaccine could save 5.4 million lives by 2030.

September 2006 marks the tenth anniversary of the HIPC Initiative. The HIPC Initiative has made a significant contribution in alleviating the burden of unpayable debt in 29 countries, writing off $70 billion and reducing debt payments from an average of nearly 24% of Government revenues to 11%, and freeing up significant resources for health, education and poverty reduction. And so we will continue to work together to ensure completion of the HIPC Initiatve; so that all creditors participate; and to ensure that the initaitve is securely and fully financed. We welcome the decision to ensure that all potentially eligible coutnries are able to benefit from debt relief.

We also strongly welcome the progress that has been made in implementing the Multilateral Debt Relief Initiative in the IMF, IDA and the AfDF, which is freeing up billions of dollars in additional resources for investment in services and infrastructure and to make progress towards the MDGs.

We share the objective of ensuring that countries that have benefited from debt relief do not reaccumulate unsustainable debt. the primary responsibilty for borrowing lies with borrowing coutnries themselves and we urge the Fund and the Bank to increase their support in helping governments to manage debt effectively. At the same time it is essential that creditors lend responsibly. The joint Debt Sustainability Framework is central to this. We will continue to work with the Fund and the Bank to strengthen the DSF, and urge all official creditors, including export credit agencies, to use the framework to guide their lending decisions. We urge the Fund and the Bank to be active in facilitating and supporting stronger creditor coordination.

The Fund and the Bank must continue to strengthen their collaboration, and we look forward to the report of the External Committee which provide an opportunity to cement a stronger partnership both institutionally and on the ground. For the Fund and the Bank to give countries the support countries they must ensure comprehensive coverage of all issues critical to the MDGs.

Finally, developed countries must focus on how we can adapt and compete in a globalised world and find our comparative advantage. Because this means moving up the value added chain each country needs to emphasize the rising importance of education and skills.

- In the UK, we are taking action to tackle our historic skills deficit and will publish Lord Leitch's final report alongside the Pre-Budget Report that will recommend a shared national commitment to a world class skills base, doubling current rates of improvement and meeting the challenge of global change.

Governments alone cannot pursue a progressive globalisation agenda. We must also involve businesses-the engines of wealth creation-to create an alliance of global companies and globally minded governments.

Despite this global economic uncertainty, economic growth in the UK is stronger and more balanced:

- business investment is growing more quickly than private consumption as the economy rebalances. It has risen by around 1 ¾ per cent in each of the first two quarters and by 4 ¼ per cent over the previous year. And, on the basis of the latest revisions, business investment grew by 3 per cent in 2005, twice as fast as previously thought Whole economy investment has risen in every year of this government making this the first government in 40 years to avoid any years of negative investment growth.

- exports growth is also strengthening, up by 8.5 over the past year compared with 4.8 per cent in 2005.

- employment is at a record high, up 220,000 over the past 12 months. And the latest data show this expansion to be wholly in the private sector with public sector employment falling slightly

- and we continue to close the productivity gap with our major competitors. GDP per capita has increased by 47 per cent per cent in the UK since 1997, compared with 34 per cent in Germany, 39 per cent in France, 44 per cent in the USA, 29 per cent in Japan and 34 per cent in Italy.

We know that if we are to sustain growth in the future we must never be complacent and always be vigilant to risks. So that is why I have said I supported the pro-active forward-looking action taken by the Bank of England in August and why we will continue to base public sector pay settlements on our 2 per cent inflation target.