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Statement by the Hon. **LEE HSIEN LOONG**,
PRIME MINISTER of **SINGAPORE** at the
Annual Meetings of the Boards of Governors of the
International Monetary Fund and the World Bank Group

**SPEECH BY MR LEE HSIEN LOONG, PRIME MINISTER, AT OPENING
CEREMONY OF THE IMF-WORLD BANK ANNUAL MEETINGS,
19 SEPTEMBER 2006, 10:30 AM**

Mr Chairman,

Managing Director de Rato,

President Wolfowitz,

Governors and Excellencies,

Ladies and Gentlemen,

Introduction

1. Let me welcome all of you to Singapore. We are honoured to be the hosts for this year's Annual Meetings of the IMF and the World Bank. We hope that the Singapore Meetings will mark another milestone in our collective efforts to promote sustained global growth and lift our people out of poverty.

New Asia in a Globalised World

2. The world is changing faster than ever. The key driver of this change is globalisation. Countries are becoming more closely interlinked with one another, through the cross-border movement of goods and services, capital and labour, technology and ideas. An integrated world is making economies more efficient and businesses more competitive. Consumers are enjoying more choice and higher living standards.

3. The Asian experience shows the benefits of plugging into the global grid. Indeed Asia's transformation is based fundamentally on globalisation – open markets and outward orientation. Over the last two decades, more people have been lifted out of poverty in Asia than in any other region at any other time in history. Although Asia was struck by a severe financial crisis in 1997, it is significant that none of the Asian countries opted out of globalisation after the crisis. On the contrary, once they stabilised their economies, they continued to keep themselves open to competition, court foreign investments and promote exports.

4. Asian governments remain convinced that despite the risks, opening up is the best way to achieve economic progress and improve the lives of their people. They have focused on enabling their economies to better meet the challenges and seize opportunities in world markets. They have pursued sound macroeconomic policies, strengthened their financial systems and improved corporate governance. Some of this is still work-in-progress. But investors are taking notice, confidence has returned, and the changes are already producing results.

5. In addition, the rise of China and India has energised the whole region. New patterns of trade and investments have emerged, linking Asian countries not just with China and India, but all across the region. At the same time, Asia is also becoming more connected to the rest of the world. Asia's future lies in being part of the global economy, not in a closed regional bloc. And just as Asia seeks opportunities in the world, the world should seek opportunities in Asia.

6. Asia is strengthening relations with existing partners like the US and Europe. The developed world too must build up stakes in Asia's growth and prosperity, and encourage the continent to play a constructive and responsible role in world affairs. There is also considerable potential for Asia to promote trade and investment with new partners in emerging regions such as Africa, Latin America, Russia and the eastern European economies. These strong external links will reduce the risk of rivalry and conflict between regions as a result of the Asian renaissance.

How To Make Globalisation Work For Us

7. Globalisation has worked for Asia, and it can work for other developing regions too. But it will not always be easy. Initial conditions matter. History and geography have sometimes conspired to make it particularly challenging for some regions. Take sub-Saharan Africa, home to roughly one-third of the one billion people worldwide living in extreme poverty. The spread of HIV/AIDs and malaria, coupled with lack of potable water and arable land as well as weaknesses in basic services and institutions, has made economic take-off difficult.

8. Yet Africa is changing. There are more elected governments and fewer civil wars. There is renewed commitment to delivering basic health and education services to the poor. Companies are being started and growing steadily, especially in banking, retailing and mobile telecommunications. There are emerging bright spots in the region – such as Tanzania or Ghana. These countries are liberalising trade, promoting investment and developing their private sectors. Their sustained growth and progress show what is possible when governments free up markets and encourage enterprise.

9. Globalisation is not without risk. Shocks and disturbances are transmitted across borders with greater speed and virulence, and can destabilise economies. Wage disparities between skilled and unskilled workers have widened in both industrialised and developing countries. The downsides of globalisation – company closures, job losses, and a sense of insecurity – are usually concentrated and felt immediately. On the other hand, the benefits – higher productivity, wider consumer choice at lower prices, and better living standards in general – although greater are usually indirect and widely spread. Not surprisingly, protectionist sentiments are growing in many countries.

10. How can we make globalisation work for everyone? How can we mitigate the downside risks and reap the upside opportunities? The first precondition is a stable and open global environment that gives all countries access to growth and development opportunities. Next, we must have good governance that enables countries to benefit from globalisation, and ensures that these benefits reach all segments of the population. Only then will countries support policies which promote globalisation, and enter a virtuous cycle where everyone has a stake in an open system that delivers prosperity for all.

A Stable and Open Global Environment

11. International financial stability is a critical element of a stable and open global environment. One potential source of instability is the mounting macroeconomic imbalances among the major economies. The longer corrective action is delayed, the bigger and more painful the inevitable adjustment will be.

12. There are no easy solutions. The imbalances essentially reflect differences in domestic savings and consumption patterns in the major economies. Exchange rate realignments are part of the solution, but by themselves exchange rates will not have sufficient impact on the imbalances. More fundamental measures are necessary – changes in macroeconomic policies and structural reforms that will shift domestic demand. These changes should be made in a coordinated way and over a period of time, to minimise the risk of a sudden slowdown in global growth. Countries must discuss this problem to reach a shared understanding of how to proceed. This dialogue must take place not just among G7 countries, but also among the key players in Asia, Europe and the oil-exporting countries.

13. Another priority area that we must work on is international trade. Trade promotes competition, specialisation, and innovation. It is a critical means of gaining and sharing the benefits of globalisation. Trade has benefited all countries, though to varying degrees. The impasse in the WTO Doha Round of trade negotiations therefore carries a heavy cost, which will extend beyond economics. The more we restrict trade and investments, the less prosperous and more insecure we will end up. If developed countries turn protectionist, the

emerging economies, which are being exhorted to abide by multilateral disciplines, will be very fast learners. A rising tide of protectionism will leave us all worse off. It has happened before; it can happen again.

14. The Doha Round is a historic opportunity to further liberalise trade, and thereby foster development and raise living standards across the world. However, striking a deal will not be easy, because the trade issues themselves are hard, and also because of the political timetables in several key countries. I am encouraged that after the meeting on Sunday of the IMF Governing Board with the Director General of the WTO, Mr Pascal Lamy, the Finance Ministers have called for an urgent resumption of the talks and an ambitious, successful outcome of the Doha Round by the end of the year. It is crucial that all countries are just as “fired up” towards making this a reality.

15. To maintain global financial stability and expand international trade, we require effective multilateral institutions like the WTO, IMF and World Bank. Regional assistance and surveillance mechanisms are useful, but cannot replace the IMF and World Bank. The Fund and the Bank are the referees and facilitators which ensure that the game is played fairly and equitably. Only these Bretton Woods institutions have the standing to take a global perspective of issues and help coordinate corrective actions in the major economies.

16. To play their roles more effectively, and strengthen their legitimacy and credibility, the Fund and Bank must have a more balanced representation of countries. This will also better reflect current realities, where Asia contains four of the ten largest economies in the world, rather than the historical configuration of powers in the immediate post-war period. The Fund and Bank can then bring to bear a richer and more diverse set of perspectives and experiences on macroeconomic and development issues – what has worked and what has not, the risks and downsides commonly encountered in reform efforts, and how standard policies have been adapted effectively to local conditions.

17. Reforms to the governance of the IMF have already started on a positive note. We have passed the first stage of the IMF quota reform by increasing the voting shares of China, South Korea, Mexico and Turkey. We must now press forward with the second stage, to revise the quota formula, increase the voice of countries whose stake in the global economy is not adequately recognised, and follow through on other reforms in the governance of the Fund.

Good Governance is Key

18. Ultimately, whether individual countries benefit from globalisation depends on how they prepare themselves for it. The paradox of globalisation is that it limits the role of governments and yet makes good governance more important than ever. Good governance is not just

about opening up the economy and freeing up the dead hand of bureaucracy. It is also about creating the conditions for sustained development and actively pursuing policies to make life better for all segments of the population.

19. First, governments must uphold high standards of integrity. This essentially means the rule of law, effective institutions, non-corrupt administration and sound regulation. These can ensure a fair and competitive economic landscape, whereas corruption robs the poor of the benefits of growth, distorts incentives, and perpetuates poverty.

20. Second, governments need to build capabilities for the future. This means investing in quality education and skills training, while paying special attention to the most vulnerable segments of the population. We must educate and train rural women so that they can raise children with the drive for learning and self-improvement; we must educate our young, especially those from lower-income families, so that they can succeed in a rapidly changing world; and we must re-train and re-skill our displaced workers so that they can find jobs and lead productive lives again.

21. Third, governments must manage the process of change with care. The pace is fast, and there is no time to waste. But governments must get the sequence and implementation of economic reforms right. They need to build consensus among key players, to weigh and manage the risks of reforms, and to make course corrections as events unfold. For example, the Asian financial crisis showed that countries have to strengthen their financial supervision and prudential safeguards before fully liberalising their capital accounts, in order to reap the benefits of improved resource allocation and reduce instabilities caused by herd instincts in financial markets.

22. Fourth, governments must win the people's support for globalisation. This is not easy because of natural resistance to change, disruption and uncertainty. Smaller countries like Singapore perhaps find it easier because we clearly have no alternative. Bigger countries have more resources, but also greater inertia to resist change. The circumstances in each country are different, and each will have to strike its own point of balance. Governments must customise strategies to manage the pace of change, and broaden the opportunities for all segments of society to benefit from globalisation. Only then can they have the latitude to take an enlightened, long-term view of their national interests, and resist populist sentiments and protectionist pressures.

23. Finally, governments must help those adversely affected by globalisation. The rewards of globalisation will seldom be spread evenly within a country, and there will be some groups who fall behind. Governments must think creatively about how to assist these groups, and help them progress along with the rest of society.

24. Overall, globalisation represents the best hope to improve the lives of the world's population. It has created growth and wealth, and fostered trade and interdependence. Globalisation is not without its downsides, but properly managed, it is a powerful force for social good. It must be part of the solution; it need not be part of the problem. With good governance and effective multilateral institutions, all countries can contain the risks and benefit from open markets and competition.

Conclusion

25. John Maynard Keynes said at the first Annual Meeting of the IMF and World Bank in 1946 that he hoped the Bretton Woods twins would receive three gifts from their fairy godmother:

- a) First, a many-coloured coat as a “perpetual reminder that they belong to the whole world”;
- b) Second, a box of vitamins to encourage “energy and a fearless spirit which does not shelve and avoid difficult issues, but welcomes them and is determined to solve them”; and
- c) Third, “a spirit of wisdom ... so that their approach to every problem is absolutely objective”.

26. Over the next few days, I hope that we will show the world the splendour of the many-coloured coat by moving decisively towards a more equitable representation in the two institutions. I hope that we will muster the relentless energy to improve the lives of people everywhere. And I hope that through our deliberations, we will all gain the wisdom and insights to address our shared concerns, and make progress in solving them together, as one global community.

27. Thank you.