FROM RECOVERY TO SUSTAINED GROWTH IN EMERGING MARKETS AND OTHER DEVELOPING COUNTRIES

Input by Minister Trevor Manuel

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Introduction

The significant improvements in the global economic outlook since our meeting in September are exceedingly encouraging. Economic growth in the past year exceeded the early forecasts and the prospects for continued growth for the global economy and for developing countries in particular is now much brighter. For developing countries growth of 4.6 per cent in 2000 and 4.8 in 2001 is projected. World growth for 2000 is now projected to be 4 per cent.

It is, however, important to note that this growth is unevenly distributed across developing countries and that a number of important challenges remain if strong growth is to be sustained. We must also be concerned about the potential risks arising primarily from a number of economic and financial imbalances in the global economy.

For the emerging markets in Latin America, Asia, Eastern Europe, the Middle East and Africa, the World Economic Outlook suggests that the momentum of recovery is increasing. Significantly, the Asian economies hardest hit by the financial crisis have performed well above expectations (Indonesia from –13.2 percent in 1998 to –0.5 percent in 1999, Thailand from –10.4 percent in 1998 to 4.2 percent in 1999 and Malaysia from –7.5 percent in 1998 to 5.5 percent in 1999). In Russia, real GDP has increased by over 3 percent in 1999, with an improved fiscal position and a larger than expected current account surplus ($18 billion).

Improved global growth and the strong supply response to the many on-going reforms taking place in many African economies sets the platform for growth for the Continent. Aggregate growth of 4.4 per cent is projected for Africa to over 4 percent in 2000. Robust growth in three of the largest economies - Algeria, Nigeria and South Africa - is expected to lead the recovery. Strong growth is also projected for a number of other smaller economies including Ghana, Mocambique, Tanzania, Tunisia and Uganda.

But for too many developing countries sustained growth has been elusive. The WEO reports that overall, the number of very poor has remained roughly unchanged over the past decade. The WEO further reports that between 1.2 and 1.3 million people world-wide live on under $1 a day. In Africa, the level of real per capita income today is lower than it was 30 years ago. Never before has the divergence between rich and poor been so great. Never has the issue of poverty been as pressing as it is today.

The key challenge facing the global economy – developing and industrialised countries - in the decade ahead is how to achieve sustainable economic growth and the eliminate poverty.

The way forward for emerging economies

Sustaining growth in *emerging markets,* will require continued focus on a series of important issues.

- Managing the risks associated with the massive flows of capital as the pace of globalisation intensifies – this includes on-going reforms in regulation and supervision, the development of domestic capital markets, improved corporate governance and adequate legal framework.
- Maintaining firm macroeconomic policies - sound fiscal and monetary policies and low and stable inflation - to create an appropriate environment for exchange rate stability, and sustained private sector investment.
- Implementing policies that promote domestic savings and investment. It is important to note that while a steady flow of foreign savings is important for emerging markets, efforts to mobilize domestic resources are critical for long-term growth.
- Improving the quality of statistics for all sectors of the economy and ensuring widespread and timely dissemination of information.
- The expansion of trade is one of the key opportunities presented by globalisation. However, this requires a major change in response from the industrialised nations, away from protectionism towards fairer rules and greater access to these markets.

From recovery to sustained growth in other developing countries

For other *developing countries*, the road towards sustained economic recovery is a great deal <u>more challenging</u>. For this group of countries – mostly in Africa - sustainable growth has remained elusive. Even where growth had been experienced, it has not been sufficient to make a dent in poverty. Indeed, over the past three decades, only 7 developing countries in the sample used in the WEO grew fast enough to substantially reduce the income gap with the industrial countries as a whole.

So what is the way forward for developing countries?

- The issue must be framed not just in terms of sustaining growth, but sustaining much higher growth and significant poverty reduction. The renewed emphasis being given to growth and poverty reduction by the WB and the IMF is a step in the right direction. This is not the time for the Fund to disengage itself from developing countries. In fact the challenge is to focus the work of the Fund so that there are effective financing instruments, policy advice and capacity building, particularly as regards fiscal, monetary and exchange rate systems and the financial sector.
- The WEO notes the importance of technology and economic transformation in improving the economic well-being of countries. Technology offers developing countries the opportunity to make rapid progress in many areas of economic and social policy and delivery.
- Policy priorities must include:

1. the continuation of prudent monetary and fiscal policies;
2. increased investment in infrastructure and human capital;
3. the need to bridge the technological gap with the rest of the world;
4. the pursuance of economic diversification;
5. improved access to markets of industrial countries;
6. greater regional regional integration and vii) the need to make a stronger case for more generous debt relief and supplementary financial support.

In mentioning the above, we, at the same time have not forgotten that the prospects for growth in developing countries are not only dependent on sound economic policy but also a parallel process of political stability. These two processes are inextricably linked. Deepening political crisis in a number of countries threaten to undermine some of the progress that has up to now been made, particularly as regional co-operation is recognised to hold the key to much of the development challenge.

While acknowledging that various reforms are required by developing countries themselves, these are not sufficient to deal with poverty at the scale as seen in most developing countries. The fight to eradicate poverty is <u>a collective responsibility of the international community</u>.

Developing countries, especially the least developed, have been <u>marginalised in trade talks</u>. The new round of trade talks must give priority to the interest of developing countries. While trying to meet the requirements of an international trading system, the basic responsibility and accountability of governments towards their own people cannot be overlooked. What is required is a greater opportunity for developing countries to increase their exports significantly and to have greater access to the markets of the industrial countries. The rewards of globalisation must accrue fairly to all who have embraced the agenda for greater integration into the international economy.

Potential risks to growth

The collective responsibility also extends to prudent management of policy decisions on the part of industrialised countries, in particular those relating to manage the potential overheating in the United States economy and progress on structural reforms in Japan and Europe. Clearly these decisions will have an impact on the global economic environment within which developing countries also function. The WEO points to a number of potential risks arising a series of economic and financial imbalances that have been building up for a over the past few years. These include:

- The large payments imbalances among the major currency areas.
- Misalignment of several key currencies with what is deemed to be consistent with medium-term fundamentals, in particular the strength of the dollar relative to the Euro. The risk of sudden changes in market sentiments, associated with shifts in capital flows, could precipitate potentially disruptive realignments of exchange rates.
- The financial system could become vulnerable to an eventual downward correction in asset prices which are at very high levels (as seen in the current volatility in stock prices). All efforts should be taken to avoid a "hard landing" that would certainly reverse recent developmental gains made in emerging and developing countries.

Poverty and debt relief

We welcome the fact the WEO has for the first time dedicated a section to issues of poverty relief and debt reduction. The need for increased concessional funding to target poverty in a direct manner, in both urban and rural areas, remains a high priority. HIPC debt relief in not sufficient.

We remain concerned that the commitments made by the G8 at Koln have not materialised and that the G7 has not made a sufficient effort to ensure the successful implementation of their own proposals. Debt relief to HIPC eligible cases is moving very slowly and it seems unlikely that our expectations of qualifying the majority of affected countries by the end of this year would materialise. In particular, attention must be given to the slow process of consultation and gathering consensus and the increasingly desperate situation faced by countries experiencing natural disasters (Mozambique and Madagascar are cases in point). Also, financing problems continue to exist. In this regard, the US is urged to expedite its internal approval procedures to facilitate the transfer of the remaining five-fourteenths of investments from profits of gold sales to the HIPC-PRGF Trust to avoid an impending shortfall.

Conclusion

The success of globalisation can only be measured in terms of its contribution of the millions of people who languish in poverty. We must commit ourselves to make the international economy work to the benefit of all, for it cannot be said to 'work' under any other condition. In this regard we have to make a concerted effort to tackle the reform of the Bretton Woods institutions. This will require political commitment by all the member states and will entail difficult political decisions. We believe that the Fund and the Bank have an important role to play in the global economy. However, they will only successfully play this role if they become more representative of the client base that they serve, primarily the emerging and developing nations of the world.