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Statement by the Hon. **ROBERT E. RUBIN**,
Governor of the Bank and the Fund for the **UNITED STATES**,
at the Joint Annual Discussion

**Statement of Secretary Robert E. Rubin
U.S. Department of the Treasury
Annual Meetings of the World Bank
Hong Kong, China
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Good afternoon. It is a pleasure to be representing a second Clinton Administration at the Annual Meetings of the IMF and World Bank. It seems particularly fitting that they are being held in Hong Kong, a city which has become such a strong symbol of the dynamism and openness that has transformed Asia these past three decades.

Barely a generation ago, the people of Hong Kong were among the poor of the world; today, their real per capita income is among the world's highest. As in so many parts of Asia, this spectacular growth was built on a commitment to hard work, sound policies, open markets, the free flow of information, and the rule of law. The presence of the entire international financial community here this week speaks to the importance of Hong Kong sustaining that commitment in the years to come.

There is now a broad-based international consensus that the strong free market fundamentals and sound governance which spurred prosperity in Hong Kong hold the key to sustained growth in every country. And there has been remarkable progress in many, many countries in recent years. However, there are still far too many people who live in poverty. They should be the focus of our attention as we go forward.

The World Bank recently forecast that the world economy would grow by nearly three and a half per cent a year during the next ten years -- the fastest pace since the 1970s oil shock. But, as recent events in South-east Asia have reminded us, there is little room for complacency -- in any country, very much including our own. We all face important challenges if we are to build on recent progress: challenges to make the policy changes needed for strong and steady growth, to strengthen international financial markets, and to tackle poor governance and corruption, which still thwart development in many countries. Let me just say a few words about each of these.

To promote strong and durable growth, governments need to do more than just endorse the sound policies I mentioned a few moments ago -- they must follow them. As we in the United States learned the hard way, this often means difficult steps to cut public borrowing, and tackle inflation. And it means - - to this day, in our case-- actively resisting those who would have us put up new barriers between ourselves and the world outside, rather than opening our own and others' markets to spur faster growth.

Difficult as these policies are, the evidence strongly suggests they are the right ones. Our own country has enjoyed low inflation, steady growth and rising employment these past five years, by following what was basically a difficult but, we believe, sound policy path. We still, however, have many challenges to meet, such as upgrading our education system, reviving our inner cities and maintaining fiscal discipline.

We have also seen enormous progress in many emerging economies in recent years, much of it fueled by closer international integration. Closer links to international markets has brought a dramatic increase in developing country trade. Increased financial market integration has also played a critical part in this increased prosperity, by providing increased investment and investment funds. And in Hong Kong the international community has reasserted its commitment to see that part of integration proceed further.

Substantial steps have been taken at the meeting in Hong Kong toward making capital market liberalization a basic purpose of the IMF and to extend the Fund's jurisdiction to include capital movements. As we all recognize, liberalization of the capital account must proceed carefully alongside our development of strong policies and financial system regulatory regimes -- but proceed it must if the global economy is to realize its true potential for growth. We believe the same end will be advanced by opening financial systems to foreign participation, and all the capital and expertise which that implies. I don't think there is any question that there was an almost unified view at the many meetings I've had here in Hong Kong with developed and developing nations that we must not allow the turbulence which can occur in the wake of crises divert us from the crucial goal of closer financial integration. Rather, we must implement national policies and work in our international institutions to let us realize the opportunities which global financial markets provide -- and to manage the risks both through prevention and, when necessary, response. Let me also say, at this point, that we in the United States are deeply committed to the economic well-being and financial stability of the nations of South East Asia, and we look forward to working with these nations and the IMF to achieve those purposes.

A commitment to sound macroeconomic policies on the part of all governments is the global economy's best safeguard against financial crises of the kind that have reverberated around South-east Asian markets in recent months. But important though these policies are, they are not sufficient. Particularly among the emerging economies, though for all of us, there is an urgent need to strengthen the legal and supervisory infrastructure underpinning the financial market -- to promote growth, and preserve stability.

Development of a sound financial system is a difficult task. It takes sustained efforts, on many fronts. Once again, success in this area will depend ultimately on national authorities having the will to take the steps necessary to develop healthy and efficient financial systems. But the international community can also help. And here in Hong Kong it has moved to support those efforts.

First, we have moved to give markets and supervisory authorities greater capacity to spot problems at an early stage and provide forewarning of crises. Financial markets, perhaps even more than any other kind, are critically dependent on the free flow of comprehensive, timely and accurate information. When investors are well-informed, their actions will reinforce good policies and encourage timely adjustment of policies as the need for such adjustments arises. Failing to disclose information in a timely manner does not lessen the chance of problems occurring. Sooner or later, adverse conditions will make themselves known anyway -- deferring disclosure simply allows problems to build up and become more severe, as well as damaging credibility. Here in Hong Kong the United States has sought to build on recent IMF moves to increase transparency, by expanding the coverage of its new special data dissemination standards (SDDS).

Second, the international community has strengthened the IMF's ability to help countries meet the challenges of a global financial market -- not merely through the Fund's surveillance and policy advice, but through its financial support for strong policy adjustment efforts when crises occur. I am particularly pleased that we have reached agreement on increasing the Fund's resources, which will enable it to provide exceptional support as warranted. I welcome, too, the heightened awareness at the World Bank of the role it can play in financial sector reform programs.

Finally, I would like to recognize and applaud the efforts of Jim Wolfensohn and Michel Camdessus to act on their commitment to making good governance -- and the fight against corruption -- a central priority of the World Bank and IMF. Their candor and initiative have generated a long overdue debate about these issues -- and with it a recognition that the costs of corruption often fall disproportionately on the poorest and most vulnerable.

Both institutions are working to make reduced corruption just as integral to their assessment of countries as more traditional concerns such as tariff reform, investment liberalization and the like. But responsibility here does not just lie with developing countries. Developed countries also have an obligation to combat the supply side of equation. I welcome the important steps toward tackling corruption which the OECD has been taking -- and strongly urge all of the member countries to make good on their recent commitments in the months ahead.

Let me stress one point: putting the fight against corruption right at the heart of our efforts to promote development is not only a moral necessity. It is an economic one. Corruption results in distorted allocation of resources. And new laws and supervisory systems to safeguard stability must be accompanied by credible - and honest - authority to enforce them. But there is also a broader point. This year's World Development Report provided an important reminder that the new global emphasis on freeing markets has not lessened the need for a strong and effective state. Quite the reverse. Each country's capacity to take on the major challenges I have mentioned today will rely critically on the credibility of its policy

makers and public institutions. And corruption undermines that credibility.

In the end, good governance, including the rule of law, will be absolutely essential for realizing the benefits of this new global economy, and managing the risks. More generally, if we work together -- at meetings such as this one -- and individually, to develop and implement the sound policies needed for growth, and to build the strong institutions needed to safeguard stability, I believe we have the opportunity to achieve widespread sustained growth and prosperity in the years ahead, and real progress for the far too many who still live in poverty. Thank you.