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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **MICHAEL CULLEN**,
Governor of the Fund for **NEW ZEALAND**,
at the Joint Annual Discussion

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Governor of the Fund for New Zealand,
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Fellow governors and delegates, I am delighted to be able to participate in this meeting, particularly given the balance, humanity, and passion of the opening speeches.

New Zealand's Economic Outlook and Direction

Economic growth in New Zealand is forecast to average around 3% over the next three years. The expansion comes on the back of a robust world economy and a favourable exchange rate for exporters.

Importantly, this growth is broader based than in the previous business cycle, with stronger contributions from exporting and less dependence on private consumption. This is forecast to contribute to a decrease in the current account deficit to 4.7% of GDP by 2003/04. Government policies are being developed to improve on these forecasts as far as growth and the current account deficit are concerned.

My Government is fiscally prudent. We are forecasting growing fiscal surpluses over the next three years. Net debt is just above 20% of GDP and will soon fall below that level. We will move simultaneously to partially prefund the New Zealand pension scheme and thus prepare better for an ageing population.

As an exporting nation, we are committed to lowering trade barriers around the world because they inhibit our ability to compete. Trade liberalisation is important to New Zealand, but it is also a critical part of any genuine effort to alleviate global poverty.

New Zealand has had a closer economic relation's agreement with Australia for over 15 years and we recently initialled a closer economic partnership with Singapore.

A Robust International Financial System

The international community has undertaken numerous initiatives to reform the international financial architecture, many of which are being implemented by the IMF and the World Bank.

Much of this work is still experimental or in its pilot stages, but clear direction and tangible progress is evident in several key areas. These include in particular -

- the promotion of transparency and accountability;
- the development of internationally recognised standards and codes; and
- the work to strengthen domestic financial systems and to assess financial sector stability in many countries.

New Zealand supports reforms to the international financial system that build on existing institutions and is practical and realistic.

International Financial Reform must be Inclusive

Reforms to the international financial system also should be inclusive.

The establishment of the Group of 20 will improve dialogue with the emerging economies.

Inclusiveness and co-operation will be important in the reform of offshore financial centres (OFCs).

New Zealand supports a collaborative, multilateral effort to improve the supervision of OFCs, including through the development of technical assistance programmes. New Zealand recognises a particular responsibility to assist in the Asia-Pacific region in this and related matters.

More generally, we welcome the positive role the World Bank has resumed in the Pacific region.

Reform of the IMF and the World Bank

Both the IMF and the World Bank must become more focused and inclusive. New Zealand considers that while growth and poverty reduction may be seen as the ultimate objectives of both organisations, their specific contributions to these ends must differ.

The objective of the IMF should be to identify problems early through better data transparency and more effective vulnerability analysis, and to seek to prevent problems through the promotion of internationally agreed standards and codes for sound monetary, financial and fiscal policy.

The Fund must be candid in its advice to members. But it is important that its advice is not based on excessively narrow and rigid adherence to a one size fits all model of economic orthodoxy.

New Zealand has experienced a mixed record of success through the most zealous pursuit of such orthodoxy in the developed world over the last decade or so. That fact should give the IMF and its staff a useful lesson in what can happen when a model is applied with

insufficient intelligence, commonsense, and understanding of the limitations and opportunities created by particular circumstances.

It is for that reason that the present New Zealand government has engaged in a modest rebalancing of policy. This still leaves us as one of the most open and lightly regulated developed economies. Meanwhile, the government is developing a strong programme to lift performance in skills development, savings, and development of a knowledge based economy. These are our clear structural imperatives.

HIPC

An early decision of the new government was to agree to a contribution to the Heavily Indebted Poor Countries (HIPC) Initiative at the IMF and World Bank in an effort to support debt relief for the poorest countries.

New Zealand considers that the international community should press forward with the HIPC initiative with pragmatism and commonsense over qualifying conditions to ensure that as many of the target countries qualify as soon as is possible.

It should never be forgotten, however, that the gains to developing countries from trade liberalisation would swamp those that accrue from debt relief.

Further agricultural trade liberalisation is of particular importance to developing countries.

In common with New Zealand, agriculture is a mainstay of many developing countries exports, but face the highest of trade barriers in their main markets. The unjustifiable existence of such barriers, and of the subsidies that often accompany them, must be at the forefront of any new round of multilateral trade negotiations.

Conclusions

An emerging theme in national and international affairs is inclusion.

Governments in both the industrialised and developing countries are identifying with domestic economic and social policies that are more inclusive while emphasising fiscal conservatism and the many benefits of the market economy.

Inclusion, dialogue, public accountability and co-operation on standards and transparency are emerging themes in international economic policy.

But these concepts must be matched by a determined commitment to greater equality, the elimination of poverty, and the pursuit of socially, economically, and environmentally sustainable development.

Excellent systems of governance are essential but not ends in themselves. Excellent governance in support of morally inadequate ends merely improves the efficiency with which those ends are achieved. The challenge for my small country is to match excellence in governance with inclusive and morally just objectives. It must also be the challenge for the world at large and for the institutions meeting here.