

# BOARDS OF GOVERNORS • 1997 ANNUAL MEETINGS • HONG KONG, CHINA

## WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

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## INTERNATIONAL MONETARY FUND

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Statement by the Hon. **WINSTON PETERS**,  
Governor of the Fund for **NEW ZEALAND**,  
at the Joint Annual Discussion

**Statement to the 1997 Annual Meeting of the  
World Bank Group and International Monetary Fund  
Hon Winston Peters  
Deputy Prime Minister and Treasurer  
New Zealand**

Embargoed against delivery, 3pm September 24, 1997.

Mr Chairman,  
Mr President,  
Mr Managing Director,  
Ladies and Gentlemen.

We are now well into this Annual Meeting. There are some pre-prepared comments which New Zealand will provide for the record, but in this speech it is more valuable to reflect on the events and statements of recent days, and venture some conclusions that we may draw from the meeting.

At a time when there has been some turmoil in Asian markets, some people might have thought it awkward that we should meet here in China, in the heart of Asia, to discuss financial issues. As you know, emotions have been running high as different commentators have tried to make sense of recent events. That said, the truth is, this has been the right conference, in the right place, at the right time, with the right leadership.

Because the rest of the world has joined us here in Asia, we can all see with our own eyes the dynamism and excitement of the Asian economies. The recent market fluctuations are simply a passing moment. The real story is the industry, production, and construction which characterise the booming economies in this region.

And above all, the real story is the people of Asia, and their efforts. These personal efforts, combined with the capital flows in a global economy, are the secret of success.

Any of us who care to look, can see success around us. And, as Premier Li Peng reminded us, "seeing it once is better than hearing about it a hundred times".

The Premier also gave us some useful principles to think about in the context of international development. He reminded us that the free flow of capital can facilitate growth, and that, like any other policy which helps growth, it can also carry risks.

One risk is the uncertainty that is created by periods of financial instability. However, another, perhaps more serious risk, is the risk of misunderstanding each other in a fast-changing world. We need to relate to each other on a basis of equality because each country has its own social system, cultural tradition and value system.

It is sad that in the recent exchanges of opinion, some have chosen to question Asian values. This

questioning seems to reflect a Euro-centric vision, and a short-term financial focus. This narrow approach is alarming, because any international exchange must be based on mutual understanding and mutual respect. This is as important in financial exchange as it is in diplomacy.

Those who trade in Asian currencies are not merely “taking a position”, as the traders say. They are participating in a social and economic system.

And the heart of that system is Asian values.

These are values of hard work and thrift.

Values of stability and loyalty, with a long term view.

And values of mutual support in the wider family.

These are the values that underpin the dynamism of Asia, and it ill behoves anyone to come from the other side of the world to deride Asian values.

The results of these values are not only to be found in Hong Kong. In the last few days some of us have visited other parts of China, including Beijing and Shanghai. The same drive and vigor as we see around us, can be seen there. The construction cranes of the world are to be found here in Hong Kong, in Shanghai, in Kuala Lumpur, and in a string of other Asian cities. Those cranes are worked night and day, by people who value providing for their families by diligence and application.

We should salute that effort, just like we applaud the efforts of the financial markets to deploy capital around the world.

We know that holding out against change is dangerous. But we also know that changing so far and so fast that we forget our basic values is disastrous. The Premier’s speech showed a clear way forward, both for China and for the world. Extensive cooperation in a global economy, will allow everyone to prosper. But only if we remember the basic values that drive success, and if we have the courage to stick to those values. China is sticking to those values, most of Asia is sticking to those values.

Prosperity also depends on remembering the importance of open information.

The lasting benefit from the events in recent months may be a wider understanding in Asia of the importance of open information so investors can make informed decisions. And on the other hand, traders from Europe and the Americas will need to use such information to distinguish the performance of different Asian countries.

After all, no one would shift their money out of Europe because of problems in one country. It is

just the same here. Problems in one country should not be seen as a problem throughout Asia.

The gain to those who have come from around the world to this conference, is that we can all look, see, learn and understand. It is that mutual understanding and respect that will underpin world growth.

**Statement tabled by Hon Winston Peters**

**Governor of the Fund for New Zealand**

• **World Economic Outlook**

The world as a whole is growing at around 4½% per annum, the highest growth for a decade. World inflation is at its lowest since the early 1960s.

The US and the UK, early starters in the current phase of global growth, have seen a pick up in growth in 1997. Tight labour markets and high levels of capacity utilisation have inflationary potential but to date price pressures have remained moderate.

Australia is poised for stronger growth given the interest rate reductions seen over the last year and signs of recovery in the housing market. Japan and continental Europe on the other hand remain laggards in the current expansion. While both are benefiting from stronger exports, structural problems and in Europe's case adjustment to Economic and Monetary Union could work against significant upturns in growth.

Robust growth continues in most of the developing world, particularly in China and much of Asia. However, the currency turmoil that has recently hit the South East Asian currency markets serves as a reminder as to the vulnerability of emerging market economies to changes in investor sentiment.

Compared to the recent past the world appears to be on a more sustainable growth path. However, there are risks to this upbeat outlook including slower than expected growth in Japan and Europe, the possibility of lower growth in South East Asia, and a correction of the currently strong major world equity markets.

As an open economy New Zealand stands to gain from a global economic situation of sustained low inflation growth. World trade also continues to grow at a rapid pace. While the growth in the volume of world trade has fallen back from the exceptional 9% per annum seen in 1994 and 1995, trade is still expected to grow at around 7% per annum both this year and next. In the short term there are clearly some risks for New Zealand's exports given the fragility of the recovery in Japan, our third largest trading partner, and the potential repercussions on growth in the South East Asian region, a growing destination for exports, stemming from the recent currency turmoil. Set against this however, the recent fall in the value of the New Zealand dollar, if sustained, should help exporters compete in world markets.

• **NZ's Experience with Labour and Product Market Reforms**

An extensive agenda of reforms has allowed the price system to emerge as the dominant signal for investment, production and consumption decisions. The major changes implemented include removal of controls on prices, interest rates and wages; removal of agricultural subsidies and price supports; removal of quantitative import controls and sharp reductions in tariffs; and deregulation of the oil, banking and transport industries. The corporatisation and privatisation of State-Owned Enterprises, in conjunction with the removal of restrictions to competition, has further liberalised many markets such as telecommunications and aviation. The labour market - both the private and public sector - has also been deregulated to permit more flexible patterns of wage bargaining to develop.

- **Recent Instability in Asian Region**

Sustained annual growth rates of 7% or more enjoyed by many of the South East Asian countries for the last decade have been the envy of the rest of the world. However, recent months have seen a wave of speculation against many of the currencies starting in May with sustained pressure on the Thai baht leading to depreciations in Thailand and a number of other countries in July. Foreign investors focused on weaknesses that certain Asian countries, namely Thailand, Indonesia, Malaysia and the Philippines, were perceived to have in common. Such weaknesses included large current account deficits, currencies linked to the US dollar and over supply in property markets.

The currency sell offs in the region, however, have been more a product of guilt by association rather than a result of necessarily shared weaknesses. Thailand stands out amongst the countries affected in that it has been running a large current account deficit, equivalent to around 8% of GDP, financed by a significant amount of short term capital inflows, very much like Mexico 1994. Investor concerns were exacerbated by Thailand's fragile banking system. Spillovers from the crisis in Thailand have been felt by fundamentally more sound currencies such as the Singapore and Hong Kong dollars. There are clear distinctions to be made between Thailand and its immediate neighbours. Indonesia's current account deficit, for example, is not particularly high while the Philippines is somewhat behind some of the other South East Asian countries in terms of development and is not suffering from a property glut.

- **IMF Capital Account Liberalisation Proposal**

New Zealand strongly agrees with the desirability of greater liberalisation of international capital flows. A liberal regime is an important element of a sound policy mix. International capital flows help ensure that resources are channeled to their most productive uses and help investors and savers to diversify their portfolios, thereby increasing economic growth.

The IMF, as the overseer of the international monetary system, is well placed to advise members on the benefits of capital account liberalisation, and to ensure that other policies are supportive of this liberalisation. The proposed initiative to include restrictions on capital movements within the Fund's jurisdiction would take the Fund's role a step further. While we support the sentiment behind this initiative, our final decision will need to take into account:

- (1) the extent to which the proposed initiative duplicates work done by other international agencies;
- (2) the extent to which this initiative replaces lower priority Fund activities (rather than simply adding to the Fund's existing workload); and
- (3) the relative costs and benefits of the overall proposal.

- **New Zealand Outlook**

The economic outlook for the next three years remains positive with robust output and ongoing employment growth. For the year ended March 1997 economic growth was 2.3% and although economic activity actually fell in the March quarter this was largely due to one off factors such as the timing of Easter which reduced the number of trading days in the quarter. A pick up in growth is expected over the rest of the year as these factors unwind and looser monetary conditions impact on economic activity. Next year should see strong momentum in the economy as a number of factors including increased government spending, tax reductions and the lagged impact of easier monetary conditions combine to fuel growth.

- **Governance - NZ Experience**

Generations of New Zealanders grew up in an environment where the Government was protector and provider. Naturally they formed strong beliefs and attitudes about the way the economy operates and the role of government. New Zealanders had high expectations about what the government could do.

Reforms over the last decade have challenged those attitudes and beliefs. And by and large New Zealanders have risen to the challenge.

For example, opening the economy to international competition has provided the opportunity for many of our businesses to boost their performance and reap the rewards a global market provides... many have seized the opportunity and have proved themselves to be among the best in the world.

Over the last decade the public sector has been transformed with the introduction of greater transparency and accountability and extraction of government from the various businesses activities it owned and operated. The government has worked hard to put its books in order and the commitment and professionalism of the public service has helped us to achieve that.

The benefits are evident:

- New Zealand has enjoyed high, sustained, non-inflationary growth over the last five years and given the Government's economic policies and a favourable world economic climate New Zealand can look forward to a solid economic performance over the next three years.
- Unemployment has fallen from a high of 10.9% in 1991 to around 6% as the economy grew strongly
- The Government has been able to reduce New Zealanders' taxes given responsible fiscal management and New Zealanders can look forward to the legislated tax cuts in July 1998. Beyond 1998, economic and fiscal conditions permitting, the Government will plan for further tax reductions.
- The Government has been able to increase expenditure in priority areas such as health and education, while reducing government spending as a proportion of GDP.

That said, established beliefs and attitudes are hard to change. The benefits of the reforms have yet to be seen in full.

- **Fund Initiative and International Good Governance**

Microeconomic reforms have an important influence on macroeconomic outcomes. We welcome the Fund's further reinforcement of this notion through the formal policy it has adopted on governance issues. This policy aims to ensure that the Fund takes a more systematic, structured approach to examining governance issues, resulting in a more focused effort, and greater consistency of treatment across the organisation. An important element in the policy is strengthened coordination with the World Bank. Many governance issues fall within the Bank's domain, and the Fund must make sure that it does not duplicate the Bank's efforts.

- **World Bank's Internal Change - Applicability for the Fund**

Other initiatives underway, such as the good governance proposals, are also commended. Again, transparency of policies and appropriate incentives and sanctions are fundamental for good governance, whether in the public or private sector. The steps the Bank and Fund are taking will help this process, although supporting measures will be required at the local, national and international level to effect real results.

Like the Bank, we would also encourage the Fund to think systematically and strategically about its priorities, its management practices and its budgeting and planning processes. To be successful in a rapidly changing international environment, both organisations need to ensure that they have a vision and a tightly focused set of core activities. Continued attention to better coordinating their respective efforts will reduce duplication and the risk of giving conflicting advice to members.

- **Strategic Compact**

New Zealand is very supportive of the objectives and motives underlying the Bank's Strategic Compact. With the growth occurring in private capital flows, the increasing number of countries moving down the road of democracy and economic reform, and the fiscal constraints facing many countries, it is timely for the Bank to look at its development effectiveness and overall efficiency in serving the needs of its clients. While we were initially reluctant to agree to higher funding to achieve the renewal, our interest is now in the results on the ground.

In this regard, I would like to offer some comments on New Zealand's experience with institutional reform in the public sector. Key lessons were the importance of:

- clear objectives and outcomes - which are quantified and agreed in advance, and focused on core business activities;
- performance indicators and efficiency measures;
- hard fiscal or budget constraints - coupled with the devolution of authority and the flexibility to reprioritise and reallocate resources according to demands. Detailed input controls act to preserve the status quo and stifle innovation; and
- more flexible human resource policies - notably individual contracts which recognise and reward performance, and penalise under-performance.

Although the New Zealand public sector did not face the added goal of staff diversity and representation, we did have the need for some groups of staff with particular skills or attributes that were not readily available. Here a range of solutions come into play - pay a premium, build the attributes from the ground up, contract out, or adapt in other ways. It doesn't mean all staff have to be treated uniformly.

We also discovered the reform process isn't a one-off exercise. It is an ongoing process involving continuous efforts and improvement, moving from the core outwards. Once the major steps have been taken and sound frameworks established, however, the reform, while not self-supporting, is self-driven, guided by the core incentives in place.

The Bank's long-term income trend also signals the importance of internal efficiencies and greater external development effectiveness. Among the measures being adopted, of portfolio improvement, new product development and appropriate pricing, our experience has pointed to greater focus and selectivity as guiding principles, supported by the unbundling and appropriate pricing of products and services.

- **IMF Performance in Recent Thai Crisis - Lessons**

Recent instability in the Thai economy has highlighted the useful role the IMF can play in rapidly mobilising resources in the face of a crisis. This is an important role for the Fund. However, being the proverbial 'ambulance at the bottom of the cliff' is clearly much less desirable than playing a preventative role where possible. Since the Mexico crisis, the Fund has carefully scrutinised the adequacy of its surveillance, and has implemented initiatives to strengthen data quality and dissemination. This needs to be kept under active review. More thinking also needs to be done on how to encourage adoption of the Fund's advice by member countries. This could include closer analysis of the moral hazard element associated with Fund financing.

- **HIPC Debt Initiative**

I welcome the progress that has been made on the HIPC debt initiative. And commend the coordinated efforts of the creditor parties involved. It is initiatives of this nature that draw on the strengths of the international financial organisations and the combined membership of those organisations. We are also encouraged by recent moves towards distributing the costs between the multilateral development banks and bilateral donors on a fully proportional basis, and urge continued efforts to resolve the African Development Bank's expected shortfall.

We endorse the pragmatic and flexible case by case approach being adopted, but are concerned at the escalation of estimated costs. It is therefore imperative that the pursuit of sound medium term economic policies and a proven track record remain key for eligibility in order to limit the risks of moral hazard and establish the framework for success.

New Zealand's support of IDA reflects our belief that collectively we can achieve greater results in some areas than we can individually. We support the use of IDA grants for HIPC relief where appropriate. To facilitate this, we have agreed to contribute to IDA 11.

- **Private Sector Involvement in Infrastructure**

We believe there is a significant role for private sector involvement in infrastructure, in both developed and developing countries, and endorse the Bank's initiatives in this area. It is important, however, that the Bank focuses on those areas it can contribute the most and resists the temptation to be all things to all people. In this regard, we see the main strengths of the Bretton Woods institutions as assisting governments in achieving macroeconomic stability and creating an enabling environment for private enterprise. Extending this role to private sector advisory services should only be undertaken where there is a clear need, and with due regard for appropriate pricing taking account of the resource requirements and risks.

Ends