

Transcript of Interview by *Finance & Development* with
Min Zhu,
Special Advisor to the IMF's Managing Director

Min Zhu is Special Advisor to the IMF's Managing Director. He was most recently Deputy Governor of the People's Bank of China, China's central bank. Before that he had more than a decade of commercial banking experience as a senior executive at the Bank of China.

Dezhi Ma of the IMF's External Relations Department met with Zhu shortly after his arrival at the IMF in May 2010 to talk about Asia in the new world order, global economic issues, and the IMF's relations with the region that is favored to lead the world out of crisis.

Asia in the new world order

F&D: How do you view Asia's future in the world economy?

Zhu: Asia is obviously becoming more and more important in the global economy. In 2009, the United States had negative GDP growth of 2.4 percent; Europe, -4.8 percent. But India had 7.3 percent growth, and China 8.7 percent. The center of growth is really moving from the West to Asia, and in particular emerging Asia. I believe that's a pattern that will continue for at least the next five years, which will change the whole global economic structure.

Another important change for Asia is its role in world trade. Because the crisis started in the advanced economies, trade flows from Asia to the advanced economies fell dramatically. So the region further strengthened intraregional trade flows. I believe we will see trade flows among the developing countries and emerging economies growing dramatically, and emerging Asia will become the centerpiece of the whole new global trade pattern.

A third area where we are seeing a change is capital flows. Because emerging Asia has strong growth and advanced economies rather weak growth, we see a multi-level, multi-speed recovery. Emerging Asia had much sounder financial situations, when the advanced economies are experiencing fiscal difficulties. So we can expect global assets to relocate, with Asia attracting more capital.

When these elements are combined, Asia will move more to the center of today's and tomorrow's global economy, attracting a lot of economic activity in the region. Asia will become a leader in global policy formation, as well. Because of all the activity that

is happening in the region, it will play a more important role in the global policy agenda, as well.

F&D: That seems to be an optimistic assessment from your side on Asia's prospects. Are there any big challenges, in terms of economic policymaking for the region?

Zhu: I am optimistic about the future and the growth prospects for Asia, very confident. But that doesn't mean everything is fine for Asia. Asia is facing a lot of challenges. That's clear. The recent crisis tells us that Asia is not isolated; it really is part of the global economy and financial sector. You see how much trade shrunk in the first quarter of 2009. You see how much capital fled in the fourth quarter of the year 2008. That tells Asia there are a lot of things it needs to do.

First, Asia needs to rethink its growth model. Asia still very much has an export-driven growth model. But we need to move forward to the domestic consumption-driven model to make growth much more balanced and sustainable.

A second issue is financial sector reform. The crisis tells us a strong financial sector—which Asia does not have yet—plays a very important role in macroeconomic management. For example, Asia does not have a deep bond market, which is absolutely important for long-term financing. Asia has been working on it for years, but still it's not there yet. So there's a need to develop a capital market and build a sound financial sector.

Third, Asia needs to deal with global capital flows. The surge in capital flows to emerging Asia presents big challenges for the region, particularly this year and for the next few years. In Asian economies, you need to very carefully handle the immediate issues, design a proper policy to bring lasting solutions.

Asia is facing a lot of challenges, including Asia-specific issues. So yes, on the one hand, I'm positive about the growth prospects for Asia, but on the other hand, Asia is facing a lot of challenges. We at the IMF can work with Asia together to overcome these challenges and make its growth more sustainable.

The global economy

F&D: How should countries work together to address the issue of global imbalances?

Zhu: That's a challenging issue. Imbalances have troubled the global economy for a while now. There are many forms of imbalance: for example, the current account balance between emerging Asia and the advanced economies, and between the oil-exporting countries and advanced economies. But if you look at Europe, you see imbalances among the European countries, as well. Germany is a big surplus country, but many other countries have deficits. The real issue is when imbalances become big, concentrated, and persistent. Twenty years ago, a country with a small surplus and a country with a small deficit balanced each other. That was fine. But in the past five years, we have seen a few countries persistently in surplus, and a few countries persistently in deficit. The

surpluses are very concentrated. Twenty years ago, the top trade deficit countries only accounted for roughly 22 percent of the global trade deficit. But today, the five major countries account for 76 percent of the global trade deficits. So it's very much concentrated. And that will become a real concern.

Obviously, we need a global cooperation on those issues. There are several things that need to be done. The deficit countries need to consume less and save more, so they can import less, and they should promote exports. The surplus countries should consume more, export less, and import more to keep a balance.

But if you're looking at the whole global picture of imbalances, you have to think about complementarity issues. The world today is not evenly developed. There are advanced economies, middle-income, emerging, low-income economies. Every country is at a different stage, with different strengths, different processes, different stages of production. For example, an advanced economy is service-oriented, and emerging economies are manufacturing-oriented, partially reflecting the division of the labor. We see this in the persistent and concentrated imbalance that is an issue for the global economy. And the Fund should play a more important central role in balancing the global economy. Both aspects, rebalancing and complementarity, will make the world more productive and more sustainable.

F&D: Your experience in the private sector and as a policymaker must have given you a unique perspective on the global financial crisis. What stands out to you?

Min Zhu: From my private sector experience, good top governance is obviously important. A company, particularly a financial company, has got to have transparency. It's got to have good risk-management systems. In particular, it has to have long-term goals rather than short-term, profit-hunting targets. Particularly in the financial sector, if you provide financial services, you really bear responsibility to the whole society. So you need long-term interests and long-term profit goals.

From a policymaker's point of view, you have to keep the balance between the real economy and the financial sector. What we saw at the end of 2007 is that the financial sector was too big, and it served itself, not the real economy, which is really the reason for the financial crisis.

At the macro level, prudent macroeconomic management has become a very important issue for all governments. In all crises you see excessive liquidity. The big lesson is that you need countercyclical, prudent, macroeconomic management to prevent this type of crisis in the future.

But now, since I'm here in the IMF, I'm looking more globally, from the international monetary system point of view, at the crisis. I'm still learning. I'll tell you later.

F&D: How do you view the role, and the performance, of the IMF in this global financial crisis?

Zhu: The IMF will play a very important role in this financial crisis. The IMF has rich knowledge about the financial sector and global economic situations. It provides analysis, research, and advice for its member countries. It has developed a product called the Early Warning Exercise to detect weaknesses in the financial sector and provide advance warning of crises. The IMF also has ample resources to provide liquidity to member countries that need financial resources in difficult situations, to ease financial tensions.

During this financial crisis, we saw the G-20 group of advanced economies emerge. The IMF quickly engaged with the G-20 and provided support. And the G-20 implemented the G-20 mutual assessment process, which is very much based on the surveillance within the IMF. For example, the G-20 asks its members to conduct peer reviews, which is very much based on the IMF's surveillance. The IMF is working closely with the G-20 and the Financial Stability Board to build a new framework for the new global financial sector as well. The IMF really plays a very important role: It's in the centerpiece of the global financial sectors. And I can foresee IMF playing a more important role in tomorrow's financial world.

IMF in Asia

F&D: What do you see as the role of the Fund in Asia?

Min: Asia plays a very important role in the IMF, and the IMF also plays a very important role in Asia. I think the two sides are working closely and very well.

The IMF plays an important role in Asia through three channels:

- First, the IMF does surveillance, both through its Article IV consultations with countries and through the Financial Sector Assessment Program (FSAP). Through surveillance, we try to assess domestic financial and economic situations, give the domestic government advice, and help build growth capacity, which our member countries appreciate. The IMF also provides liquidity to countries that need it in urgent situations. We are a lender of last resort, bringing stability to members' economies.
- Another important role the IMF plays in Asia is capacity building. Asia is very diverse. High-income, middle-income, low-income countries: their needs are very different. The IMF helps its member countries build capacity through technical assistance (TA). We offer technical assistance for prudent macroeconomic management, for growth modeling, for rebalancing structure, and for tax policy. This helps domestic governments enhance their capability to handle challenges such as aging. The Fund also offers training in Asia. We have training centers in Singapore, China, Malaysia, and India.
- Another important thing IMF brings to the region is knowledge. We produce the very important "World Economic Outlook." We produce the Financial Sector

Stability Report. We produce the Regional Economic Outlook, and we produce much research. This important research and information helps domestic economies understand the world and become part of the policymaking process. As Asia becomes more and more important, we need to study it more, we need to get closer to Asia and further develop our links with Asia.

F&D: How do you think the bigger role of Asia, and China, in the world economy should be reflected in the IMF?

Zhu: Most people's first response would be the quota and voice reform that is currently under way, to reflect the growing role of Asia and China. It's right to give China and Asia more status within the institution. But more important is for the Fund to understand Asia and China more and to bring Asia's and China's experience to the rest of the world. Why is Asia so successful? There is a role for the Fund to play in bringing those experiences to other emerging economies, and maybe also to other advanced economies. Also, the Fund can and should bring Asia and China to the global platform to ask them to participate in the global policy formation process.

F&D: How do you think the Fund should cooperate with regional initiatives—for example, in Asia?

Zhu: The Fund's role in the global financial sector, and that of regional initiatives, complement each other very well. Both have their strengths. Regional initiatives, for example, the Chiang Mai initiative, understand the regional situation better. They can respond much faster. They are sort of a bilateral equivalent to multilateral agreements, and they can mobilize resources faster in certain ways.

But the Fund is in a unique position because it is in the center of the financial sector, and oversees the whole global financial and economic situation. There is a lot of room for the Fund to work with regional initiatives. There are a few things the Fund can do. First, it can provide technical support for the regional initiatives. If you want a regional initiative to be a real mechanism, you need surveillance. You need information, you need analysis. The Fund has all the necessary strength and capability for that. It can offer knowledge transfer to help regions build their capacity.

If you want to make these initiatives effective, ones that can react to a crisis, they need a credit line. And the Fund offers a very good credit line facility. Through the credit line, it can help the regional initiatives build up. At the end of the day, these regional initiatives will work with the Fund, and together they will become part of the global financial structure that will make the world's financial sector sound, more sustainable, and safe.