United Nations Economic and Social Council (ECOSOC)
2011 High-Level Segment

High-Level Policy Dialogue with the International Financial and Trade Institutions
on Current Developments in the World Economy

Geneva, July 5, 2011, (10:00 am – 11:45 am)

Statement by Mr. Min ZHU
Special Advisor to the Managing Director, IMF

The recovery from the severe contractions of the global economic and financial crisis continues. Overall, the global economy expanded at an annualized rate of 4.3 percent in the first quarter, with offsetting changes across various economies. The negative effects of the Japanese earthquake and tsunami and a slowing growth performance in the US were outweighed by a strong expansion in the euro area and continued buoyancy of emerging market and developing countries' growth, although here too, performance varied considerably across regions.

Global inflation increased from 3 ½ percent in the last quarter of 2010 to 4 percent in the first quarter of 2011, **mainly because of higher commodity prices**. Inflation pressures in developing countries have become more broad-based owing to higher food and fuel costs, which have a relatively large share in their consumption baskets. However, the surge in commodity prices seems to be abating and prices are stabilizing at levels somewhat below their recent peaks.

Global financial conditions have become more volatile since late May, reflecting concerns about sovereign risks in the euro area periphery and the recent softening of activity in the US. There is also disquiet at the pace of progress in banking system repair, particularly in Europe.

Looking forward, we expect global growth to average 4.3 percent for the year as a whole, but it will remain unbalanced. In the advanced economies still facing fiscal and financial sector balance sheet problems, growth will remain sluggish (averaging about 2½ percent during 2011–12, down from 3 percent in 2010). This will continue to drag on employment. Activity will continue to expand strongly in advanced economies that do not face such challenges, as well as in many emerging and developing economies, where growth is projected at about 6½ percent in 2011, compared with about 7½ percent in 2010.

The two-speed recovery is thus expected to continue, but with downside risks intensifying. The key risks are weaker-than-expected US growth; renewed financial sector volatility; persistent fiscal and financial sector imbalances in many advanced economies; and increasing signs of overheating in many emerging and developing economies.

Preserving the recovery and putting the global economy on a path of sustained growth thus requires a determined response on several fronts. *In the advanced economies*, the priorities are:

- Fiscal consolidation focused on re-establishing medium-term debt sustainability;
- Completing financial sector repair and reform; and
- Structural reforms to enhance competitiveness and spur employment creation, particularly in the euro area periphery.

In some emerging and developing economies where output has already recovered to close to pre-crisis levels, priorities include:

- The willingness to tighten macroeconomic policies in a timely fashion to counter the risk of overheating; and
- In the surplus economies, further progress in rebalancing demand away from exports and toward domestic consumption.

Developing countries, especially the low-income ones, must secure the recovery of growth and reduce their vulnerability to shocks: Policy priorities include:

- Rebuilding macroeconomic policy buffers to enable a flexible and effective response to future shocks;
- Scaling up public investment in infrastructure and in core sectors to reduce bottlenecks to growth and economic diversification; and
- Reinforcing and enhancing the institutions and regulatory frameworks for economic activity, including in the labor market, to foster private sector investment and job creation.

Looking further ahead, the contours of a different set of challenges are beginning to emerge, particularly for the most successful among the developing countries. Economic developments over the past thirty years have led to a **fundamental shift in the balance of the global economy**—decades of steady, and at times very strong, growth among the developing countries have greatly increased their share in the global economy. Incomes and household consumption are rising rapidly in the dynamic emerging market economies, substantially raising their demand for food, infrastructure services (e.g. transportation, energy and housing) and capital. Production patterns are shifting, as these economies increasingly produce sophisticated high-technology goods and services, and their role in global trade is rising rapidly. The developing world has become the real engine of global growth.

At the same time, many low-income developing countries, despite their strong growth performance over the past decade, remain vulnerable to exogenous shocks that can set back their economic and social progress. Their economies still depend heavily on a few sectors, often primary commodities, and they face bottlenecks (in terms of economic infrastructure and human capital) that tend to hold back efforts to accelerate growth and increase their resilience.

Advanced economies, for their part, face serious challenges in reducing unemployment, consolidating their fiscal situations, and reducing their medium-term debt without imperiling the economic recovery.

And all countries will also face a set of common challenges that require cooperative and collective solutions, such as climate change, global health, strengthening the global monetary and trading systems, and the need to transition to more ecologically sustainable patterns of production and consumption.

These changes in the structure of the global economy point to certain policy priorities for the emerging market economies, and for developing countries in general, over the medium- to longer term. Four such priorities stand out:

- *The growth model can no longer depend on demand from the advanced economies*. Emerging markets, in particular, will need to transition to growth generated internally, with greater emphasis on domestic demand. This implies strengthening agriculture to meet the rising domestic demand for food; improving service sectors as a source of future sustainable employment, and further investment to reduce bottlenecks in infrastructure (transportation and energy), in the skills mix of the population, and in productivity-enhancing technologies.
- Other developing countries must focus on *diversifying the structures of their economies* to reduce the dependence on primary commodities and the vulnerability to shocks that goes with it. They must also equip themselves to better participate in global trade, which will further spur diversification of products and markets.
- There is an overarching need to *ensure that growth is inclusive and equitable.* This requires policies that will foster growth in the sectors most likely to benefit the poor and disadvantaged; a focus on the creation of sustainable jobs, including through active labor market policies, investment in new skills and higher-quality education, and stronger institutions; and better and broader social protection systems, with particular emphasis on providing effective protection against shocks to the most disadvantaged groups.
- Finally, developing countries will need to *strengthen and deepen their financial sectors*, enabling them to better mobilize domestic and foreign resources for investment, and to manage capital inflows more effectively.

The international community also has a role to play to ensure a favorable external environment for the efforts of developing countries, particularly the low-income and least developed countries. Despite the difficulties in concluding the Doha Development Round, there is scope to improve market access for low-income and least developed countries and strengthen their ability to reap the gains from trade through aid for trade and affordable, accessible trade finance. Both advanced and emerging market economies should step up their capacity-building support, facilitate the transfer of appropriate technology, and provide adequate concessional financing to less developed economies to support efforts to diversify their economies, accelerate growth. And finally, the international community should ensure that the low-income and least developed countries have the support they need to adapt to climate change and other emerging challenges.