An Inclusive and more Responsible Global Agenda:
A Paradigm Shift for Faster Growth

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Building our Common Future

Excellencies, Distinguished Guests, Ladies and Gentlemen, I am pleased to participate in this important conference here today.

Before I begin I would like to thank DFID for organizing the conference and for inviting the World Bank. As you know President Bob Zoellick wanted to be here today but unfortunately had a scheduling conflict.

As we meet here today, the very topic for this conference – eliminating world poverty: building our common future – is in grave danger.

First, let me provide a brief overview of how far we have come together, before considering the present, then the future.

The speed and pace of globalization – and its consequences-- in the last two decades has been truly remarkable.

Over the last two decades the world witnessed unprecedented economic growth.

Net private capital flows to developing countries reached a record $1 trillion in 2007. Foreign Direct Investment rose to 32 percent of world GDP in 2007 up from 6 percent in 1980 with China, Russia, Brazil and Mexico among the top ten recipients.

International trade flourished. Developing countries opened up their economies, increased exports, and quickly gained market share in global trade. The ratio of goods and services trade to global GDP rose to 62 percent in two decades.

Labor became more mobile. The flow of international migrants has increased steadily over the last two decades by about 3 percent on average. Thirty seven percent of all migration was people moving from low- and middle-income countries to the advanced economies.

South–south migration, at 24 percent of all migration also gained steam with Argentina, China, Cote D'Ivoire, India, Jordan and South Africa among the leading destinations.

Remittances to developing countries went up dramatically from $84 billion to $240 billion in less than a decade, with small economies like Tajikistan receiving the most remittances as a share of GDP at 45 percent. Others like Moldova weren't far behind at 38 percent and Lebanon at 24 percent.

Progress in poverty reduction was rapid.
Extreme poverty – the proportion of the population in developing countries living on less than $1 a day fell from 29 percent in 1990 to 18 percent in 2004.

South Asia, Latin America and East Asia were on track to halve poverty by 2015.

Central and Eastern Europe, the Middle East and North Africa were close to eliminating extreme poverty, while Sub Saharan Africa reduced the share of people in extreme poverty by 4.7 percentage points in the five years to 2007.

With global integration, the world economies advanced on many fronts.

But many were left out. Over 1 billion people still lived in extreme poverty, 2005 estimates for people living at $1.25 a day were 1.37 billion, and $2.00 a day was at 2.56 billion.

No developing country was on track to meet the MDG target for reducing child mortality.

Where are we today? A crisis has set in.

Over the past year the world has experienced multiple crises; first the food, then fuel, and fertilizer. Now we are in the throes of a financial crisis and global economic recession which are truly global in their reach and impact, especially the hurt it's inflicting on people.

When this crisis began people in developing countries, especially those in Africa, were the innocent bystanders in this crisis, yet they have no choice but to bear its harsh consequences.

With the financial crisis, the distance from the American suburbs to the copper mines in the Democratic Republic of Congo, the factories in China, the banks in Hungary, and hotels in Lima has disappeared. From Wall Street to Main Street and No Street we are all one in this crisis.

Martin Luther King Jr. could not have been more accurate when he said*." whatever affects one directly, affects all indirectly."*

Developed countries are hurting.

Growth in rich countries in 2009 will likely be negative. In the last quarter of 2008, the US GDP contracted by 6.5 percent and the Japanese economy by 12 percent. Many European countries, including Germany and France have registered significant drops in exports.

Stock markets are at historic lows as share prices across the globe tumble. According to some estimates - **Allan Bollard Governor of the central Bank of New Zealand** - the amount of money lost in global stock markets totaled **30 trillion dollars** - a sum that could eradicate poverty in the developing world in 10 years.
Factories are shutting down in many advanced countries. In Australia, Spain and even here in the UK, unemployment is the highest it has been in more than a decade, and for Australia three decades.

And developing countries are hurting too.

Global GDP growth forecasts for developing countries in 2009 have been now revised downward from 5.9 in 2008 to approximately 3 percent. These numbers are constantly changing.

Had it not been for reforms and implementation of lessons learned from past crisis, developing countries would have been in even worse shape. There are three main channels of transmission of the crisis: capital markets, commodity markets, and labor markets.

I will discuss each in turn.

Capital markets have dried up:

According to the Institute for International Finance, net private capital flows to emerging markets are estimated to have declined to US$467 billion in 2008, half of their 2007 level. A further sharp decline to US$165 billion is forecast for 2009.

Private capital inflows for much needed infrastructure are drying up. African stock markets have fallen by an average of 40 percent. In Liberia, a $1.5 billion investment in iron-ore mining by Acelor-Mittal that would have created thousands of jobs has been delayed.

In Nigeria, the market capitalization of the 303 listed equities, suffered its highest fall in the 48-year history of the Nigerian Stock Exchange, depreciating by 32 per cent by the end of the year.

In Central and Eastern Europe, the figures are staggering according to the Institute of International Finance. Net private capital flows to Emerging Europe are projected to plummet from an estimated $254 billion in 2008 to $30 billion in 2009.

The vulnerabilities in many of these CEE countries – high foreign currency borrowings, currency mismatches, high levels of external debt and massive current-account deficits – suggest the classic makings of a capital account crisis a la Asia in the late 1990s. Already we have witnessed episodes of political unrest in several countries such as Bulgaria and Latvia. However other countries that pursued more prudent and sounder financial and fiscal policies such as Poland, Czech Republic, Slovakia and Slovenia are weathering the storm better so far.

Remittances are drying up:
This is the first global crisis that started in remittance sending countries and it'll be developing countries who suffer the fallout.

Remittance flows are estimated to have reached $305 billion in 2008, an increase of around 9 percent from 2007, but all estimates suggest that remittances to developing countries will fall in 2009.

For countries where remittance inflows are large relative to GDP, a decline could be devastating. This is true for Tajikistan (45 percent), Tonga (35 percent), and Lesotho (29 percent).

For a number of countries, declines in remittance inflows have been compounded by unfavorable exchange rate movements. The sharp depreciation in Russia's currency in the second half of 2008 and into early 2009 significantly reduced the local currency value of ruble-denominated remittances.

Trade:

We are experiencing the worst export contraction in decades. 2009 is expected to be the year when we experience the first yearly decline in world trade volumes since 1982.

Twenty-eight out of 38 developing economies reported double digit drops in nominal exports in November, compared to a year ago.

In developing countries such as Indonesia, Turkey, South Africa and Chile, exports are down 20 percent or more. Malaysia last month reported a 24 percent drop in exports, its worst since the East Asian Crisis. These declines mean job losses.

Commodities

During the second half of 2008, non-energy commodity prices plunged 38 percent. In December, non-energy prices fell 6.8 percent, down for the fifth consecutive month. Oil prices fell 69 percent between July and December 2008, reversing the oil price increases of the previous 3 ½ years.

Many countries have difficulty executing their budgets as commodity revenues dry up. Painful cuts are under way. Teachers, doctors, nurses and the police risk being unpaid or important investments not made. This is particularly the case for many Low Income Countries.

Labor

The situation is no better in the Labor markets. The ILO estimates the global job losses could hit 51 million under the most pessimistic scenario and this number is likely to increase as the forecasts are revised.

Using the $1.25 per day poverty line, World Bank estimates suggest that over 93 million additional workers are expected to be categorized as working poor (up 2.5 percentage points), with 47 million in South Asia and 24 million in South-Saharan Africa. Announcements of job losses in mines, garment industry and even tourist industry are common place now but the worst is yet to come. This has led to unrest in Chile and Latvia.

In China 20 million are already out of a job. 200,000 people in the DRC are out of work because of mine and smelter closures. **In Cambodia**, the garment industry has laid off 30,000 workers – mostly women. This is the country's most significant export industry.

Human tragedy in the making

The harsh reality is that for the developing world, slowing growth and higher poverty levels could have devastating consequences.

Coming on the heels of the recent rise in food prices that has pushed an estimated 130-155 million people into poverty, the financial crisis will stress coping mechanisms even more.

Virtually no one is immune. A recent survey by the World Bank shows that over 40 developing countries are highly exposed with both declining growth rates and high poverty levels. And over 50 more are facing either decelerating growth or high poverty levels as a result of the crisis.

A lost global generation for the world

History tells us more babies die when countries suffer big slowdowns in growth.

Countries that suffered economic contractions of 10 percent or more between 1980 and 2004 had more than one million extra infant deaths. Our early estimates are that some1.4 to 2.8 million **more** babies could die in developing countries between now and 2015, if the crisis persists.

In the face of these numbers we have an obligation, a moral responsibility to act.

We cannot let babies die or allow a situation where newborn babies go un-fed or pregnant mothers are left unattended. We know the first two years of a child's life are the most important for future growth and productivity.

So we need to sound the alarm. The human cost of this crisis in the developing world could be monumental. It could lead to a whole **lost global generation**.

We must act now to prevent a lost generation. We must secure the future of our children and our common future.
We must put in place adequate systems to minimize reoccurrences of such crises and systems to effectively manage them when they occur.

Perhaps we can borrow from Schumpeter's theory of creative destruction and consider that this crisis offers opportunity for fundamental renewal and the possibility of a more rapid inclusive and responsible growth over the next decade.

In this regard, the key question before us is what kind of a future do we want post crisis? What type of globalization do we need? How do we get:

- A globalization that does not devastate markets (financial, commodity and agriculture);
- A globalization that does not leave a billion people hungry;
- A globalization that protects the environment for future generations,;
- A globalization that increases productivity and provides jobs for all; and
- A globalization that protects its women and children.

A paradigm shift.

To get there, there must be a paradigm shift in the way the world grows and develops.

What are the main elements motivating a paradigm shift?

The first has to do with improving the way markets function. The second with climate change. When this crisis abates, we cannot simply go back to the old growth path with its implications for rising oil and food prices and global imbalances -- and especially its adverse consequences for the environment and climate change.

Third, we cannot simply leave large segments of our fellow human beings behind. Not only do actions taken in the developed world have a direct impact on the lives of the poor and more vulnerable, we need better mechanisms for sharing the fruits of globalization with those who are less well-positioned to benefit. This is not simply a matter of pragmatism. It is a matter of self preservation for the developed world and of life and death for the developing world.

Let me now discuss what developed countries can do, what developing countries should do and how IFIs can intermediate for this new globalization to succeed.

WHAT CAN DEVELOPED COUNTRIES DO?

First is that markets remain critical:

So, any reversals from market principles such as is occurring under some stimulus packages must have sunset clauses and well-defined exit strategies. But as exits happen, we cannot simply go back to the unregulated or semi-regulated markets of the past. Developed countries must now learn the lesson. Good regulatory regimes are as important, or more so, in their markets as in those of developing countries. Poorly regulated markets in developed countries can devastate markets everywhere.

We must also not ignore market failures that leave the poor behind. These have to be fixed. So markets yes, but a different kind of market. We must also support the development of new markets, such as for carbon trade, and ensure that developing countries can participate. This will foster new, cleaner, and greener growth of the kind the new globalization demands.

Second, improvements in financial regulation must be truly comprehensive to include commodity markets:

As the debate to strengthen financial regulation unfolds, we must not forget one of the big lessons of this crisis. Volatility remains a key concern. This volatility has been accentuated by the increasing market inter-linkages between the housing, stock and commodity markets and the banking sector to name a few.

In the new globalization we must avoid the proliferation of complex financial instruments that spread risk rather than reduce risk. The new paradigm shift should be to new financial architecture that encourages innovation but shuns market distorting practices. Many of the world's poor cannot afford such speculative gambles on their livelihoods – and worse still cannot cope with devastating consequences of these actions.

In this regard, developing better and more transparent commodity trading instruments must be part of a comprehensive global discussion on the new regulatory framework for financial and commodity markets.

Third, we must accelerate trade liberalization.

Trade is still the key way through which the huge growth contractions of today can be reversed. Policies emerging from the crisis must enable renewed faster, cleaner and truly global trade.

The new paradigm shift must include an end to beggar-thy-neighbor trade policies. Calls for protectionist-type policies will sound the death knell for renewed growth and will only further compound the problems confronting us all. The developed world must take the leadership role in reviving the Doha round. We need a new trade order that helps developing countries sell more value added goods across the world.

Together with developing countries, they must agree to revisit old taboos and confront new challenges such as the biofuels subsidies and mandates, positions on Genetically Modified Organisms (GMO) and other issues.

This is a time to be bold. This is especially true in agriculture on which 75 percent of the world's poor people - mostly women- depend on for their very existence and that of their families.

Fourth, support innovation and new technology for even faster growth

Rapid increases in productivity would be needed to restore and sustain growth over the next decades. We must shift to a new paradigm that allows us to live better while depleting less of the world's natural's resources.

Innovative and clean technologies for producing seeds, fertilizer, energy and improving communication are critical for this agenda. Developing countries will depend on the advanced nations to share these technologies in a timely and affordable manner.

On global issues like COP15 developed countries should agree in Copenhagen to move the agenda forward in an inclusive way. The world needs an instrument to deal with climate change issues.

Fifth, we need better Monitoring Systems.

One of the lessons of these crises is that we need **better monitoring and early warning systems** for the financial sector, for the climate, for food, grains and most importantly for poverty. A new paradigm will be one in which we collectively monitor and assess progress across a range of important issues, so the world can act to prevent crises or at least mute them when they occur. Advanced countries can support initiatives to strengthen inclusive monitoring institutions where they exist or help structure them where they do not.

Sixth,
Developed countries need to shift to a new paradigm for development aid. Fulfilling the Gleneagles commitments should not mean continuing to provide aid in the same old way. Development assistance must target developing countries as opportunity rather than a challenge and target poor people as assets rather than a liability. Development assistance must have job creation as the primary instrument of poverty reduction. Aid resources must increasingly leverage private sector resources for basic infrastructure and for investment in value added job creating enterprises.

What developing countries must do ?

In December last year, I watched as country after country in the developing world was forced to struggle with budget revisions to address the impact of the crisis. It is no different now.

Don Kaberuka talked about a lot of this in his speech on Africa so I will quickly highlight a few points.

The first order of business for the developing countries should be to protect past gains in macroeconomic stability and continue reform. Policy makers need to determine whether there is need for counter-cyclical fiscal policy and whether they have the fiscal space.

Second, economies of emerging market countries are more diversified. Over the next decade, low income countries must shift to a paradigm of diversification, must diversify their revenue base and raise more domestic revenues. Low income countries need to begin to finance more of their development domestically. They must migrate to a higher growth path where manufacturing and services are as much a part of the economy as are commodities and agriculture.

This can only come about if countries improve their business regulations and property rights legislation. The new growth paradigm must see developing and developed countries working together for a successful conclusion of an expanded Doha round.

Third, this new paradigm shift must mean that developing countries exploit the benefits of South-South collaboration more effectively. The infrastructure needs of the developing world are daunting. Across the developing world, almost 40 percent of all production is lost in transportation.

Only 5 percent of all the arable land in Africa is irrigated and only 48 percent of the farmers in the Middle East use improved seeds. The solutions to many of these problems lie in stronger south-south sharing, exchange, and investment.
Strengthening regional links must be an important part of the solution. Regional roads, rail systems, power pools, and trade corridors must become a central part of the future growth strategies.

Fourth, we too in the developing world must look at poor people as assets and not liabilities. The new globalization should mean we adopt our new ways of caring for our infants, educating our youth, empowering our women and protecting the vulnerable.

Finally, there must be zero tolerance for poor governance. **When funds are short, and lives are being lost, corruption cannot, and must not be allowed to thrive.**
Developing countries must put in place effective and independent institutions. The rule of law must be respected and systems of accountability instituted. Citizens should demand and get good results from their Governments.

What can the MDBs and the World Bank Group do to enable this paradigm shift?

The role of Multilateral Institutions and other IFIs, and I must say, increasingly other philanthropic organizations and NGOs in this new Globalization will be critical.

These organizations can be arbiters and intermediaries between developed and developing countries to facilitate the new paradigm shift and to enable growth and development on a sustainable platform.

At the World Bank Group, we are well placed to intermediate this paradigm shift and enable the new globalization.

First, as we do that we are mindful of the need to leverage aid resources through PPPs that invest in developing countries and to create or preserve jobs.

Second in this time of crisis we have been a **voice for the developing countries and we want to continue to be that voice**. As we move toward a new paradigm of globalization, we at the World Bank are taking this a step further. Today, we announced **the membership of the High Level Commission on the Modernization of World Bank Group Governance**, chaired by the former President of Mexico, Ernesto Zedillo. The Zedillo Commission will work to ensure that the World Bank Group can operate more dynamically, effectively, efficiently, and legitimately in a transformed global political economy and will focus to ensure that the World Bank Group reflects the changing global dynamics between developing and developed countries.

Third, with concern that official aid flows could see even more serious volatility, we have moved quickly to speed up our own resources of $100 billion over the next 3 years for IBRD countries and $42 billion for IDA. We set up a **Vulnerability Financing Facility** with three windows: IDA Fast Track Facility; the Global Food Response Program; and the Rapid Social Response Facility to respond to the needs of the developing countries. The VFF will fast track WBG resources as well as resources over and above IDA contributions pledged by developed countries. We are grateful to the UK for supporting the Vulnerability Financing Facility and especially the Rapid Social Response windows.

We are also helping to raise additional resources for developing countries. We must not forget that currency movements alone will wipe out almost $5 billion in aid in 2009. In this regard, The World Bank is calling for each developed country to pledge 0.7 percent of its economic stimulus package to a **vulnerability fund** to help developing countries weather the impacts of the global economic crisis.

Fourth, we can be effective intermediaries across a broad spectrum of development partners in the delivery of aid. For the food crisis, for example, we are providing assistance to 30 countries and working with an array of development partners from the governments to the UN HLTF, AfDB, WFP, IFAD and civil society to design and implement programs and projects. In Liberia, Rwanda, Yemen and the Philippines we provided school children, pregnant mothers, and farmers with food, drugs and seeds and fertilizer in a timely manner when they needed it most.

More countries are trusting us with additional resources to respond to the food crisis, such as, the Australians, the Russians and the Europeans.

Fifth, we can intermediate between the private sector and government to protect infrastructure and create jobs. This is an important tool for poverty reduction and must increasingly be our central paradigm. The World Bank and the IFC have launched a number of initiatives on this. For example, working with Small and Medium Enterprises in developing countries, the IFC has created a Global Trade Liquidity Pool to fund trade transactions for up to 270 days. We are working hard on PPPs for regional infrastructure in Africa, central and South Asia.

Finally, we can intermediate between knowledge and innovation. As the global economy transitions from its most rapid growth in four decades to its most serious slowdown since the Great Depression, the need for the WBG's **knowledge assets could hardly be greater.** On climate change we are already working through our $6 billion Climate Investment Funds to assist developing countries put in place effective mitigation and adaptation policies and programs.

Ladies and Gentlemen, in this new world, the World Bank Group will be a strong and responsible partner for securing a more rapid, inclusive and responsible growth.

Conclusion

Let me end by saying that in the bleakness of this financial crisis, in the depth of this global economic recession, in the midst of endeavors to find immediate solutions, we must also look ahead. We must look ahead to new markets, to better and new regulation, smarter and more equitable trade, cleaner, greener and more job creating growth. We must look ahead to growth and development that does not leave billions behind. This entails a paradigm shift on the part of all of us.

Ladies and Gentlemen, join me to embrace that paradigm shift, for as Benjamin Franklin said during the signing of the Declaration of Independence “Let’s all hang together or assuredly we shall hang separately”.

Thank you