Statement by

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The Islamic Development Bank (IsDB) Group is delighted to be part of deliberations at the 81st meeting of the Development Committee. Global development is at the heart of the IDB Group as such we are highly committed to discussing emerging global development challenges and articulating measures for tackling them. The Development Committee is a useful platform for proper analysis of global development trends and identifying measures to tackle them.

The 81st meeting of the development committee is taking place at a time the global economy is facing challenges of recovery from the recent global recession. Even though there is improved prospect of recovery from the severest recession since the 1930s, the cumulative and spillover effects continue to pose challenges. In spite of the positive recovery indicators, there are growing concerns of relapse to another round of crisis due to emerging risks of sovereign defaults. The fiscal stress of some countries and the associated risks of sovereign defaults, the unwinding of emergency liquidity facilities by advanced economies adds to growing concerns for achieving full recovery of the global economy.

The Fragile Global Recovery

As the current recovery is fragile, hoping for strong revival of the advanced economies to sustain the momentum of growth towards full recovery, the contemplated withdrawal of fiscal support by advanced economies threatens to jeopardize the prospects of full recovery, leading to fading optimism for a “V-shaped” recovery and concerns about a double-dip recession. Hence, the immediate challenge is strengthening the fragile recovery to make it sustainable without creating serious macroeconomic disturbances that could precipitate another crisis.

Thus, global recovery faces a ‘dilemma’ of exiting from stimulus support amid fears of sovereign risks while maintaining fiscal stimulus support is required to strengthen and sustain the recovery. Much as exits from fiscal stimulus seem compelling, it is associated with high risk of undermining global growth, especially as capital flows, private demand and global trade, the key pillars of global economic strength, are yet to fully recover.

Post-Crisis Global Development Challenges

The changed post-crisis global economic landscape has far-reaching developmental implications for developing countries, including IDB member countries. A strong revamp of global trade is critical to facilitating the trickle down effects of the global recovery on member countries, yet there is no indication that the high consumption levels of the advanced economies that fueled high pre-crisis growth through chain of global demand will return. Hence, revamping global trade will require the emergence of new
global consumers. Production and consumption adjustment measures adopted by emerging economies have contributed in creating new sources of global demand, which in turn, contributed significantly to the rebound of the global economy.

Addressing the global imbalances remains the most crucial long-term challenge of the global economy in propelling growth in developing countries to ensure steady global growth. While the international development community can initiate measures to support the rebalancing of global production and consumption, significant macro and micro economic reforms in both industrialized and emerging economies is very important.

The international development community can complement the efforts of developing countries to facilitate re-channeling of capital from capital surplus to capital deficit economies to spur growth non-emerging developing economies. This is crucial in the light of increasing disparity in capital flows that could undermine balanced development of the global economy. For instance, while China, India and Brazil are concerned with issues of effective management of excess capital inflows, many developing countries continue to grapple with lack of adequate capital flows into their economies.

The G-20 recognizes the imperative of financial sector reform as part of its agenda for averting future financial crisis in the global economy. The G-20 tends to focus largely on financial system and fiscal support issues. Much as these are very important in addressing the problems that gave rise to the global financial crisis, it is equally important to focus on measures that could facilitate the flow of real resources flow to non-emerging developing countries through value-adding productive investments that create opportunities for diffusion of technologies into domestic systems of innovations.

Implications for IsDB Member Countries

As a group of developing countries, IsDB member countries felt the impact of the global recession through global trade decline due to fall in global demand as well as other channels such as falling remittances and FDI flows. It follows that, their recovery prospects hinges on the revival of these main channels of transmission. However, the most obvious signal from the recovery outlook of the global economy is that it will be difficult to recreate the consumption boom in the advanced economies that spurred high growth of the global economy prior to the financial and economic crisis.

Consequently, the trickledown effect of the global economic recovery to be achieved in 2010, on the economies of member countries is uncertain. Given that, many IDB member countries are highly vulnerable to poverty incidence from economic growth slowdown; it is most likely that the poverty effect on member countries will be very high. Combined with the effect of the food crisis that preceded the recession, this could have serious adverse implications for social and political stability in member countries.

In the post-crisis world, non-emerging developing countries, including many IsDB member countries face increasing poverty reduction and other development challenges. The volatility of international commodity prices is not abating even as revamp of global trade remains uncertain. Given the reliance of many member countries on commodity exports, this is likely to exacerbate the fiscal vulnerabilities of many member countries. As advanced economies ponder on implications of withdrawing fiscal stimulus, ODA flows will continue to slow down, thereby further narrowing the sources for bridging development-financing gap. The combined effect of fiscal constraints and narrowing ODA flows intensifies the development challenges, especially as it affects poverty reduction.

Responsive measures by member countries are required to cope with these post-crisis challenges. Food security concerns remain; especially as the volatility of food prices continue to generate uncertainties. It follows therefore that, immediate actions need to focus on increasing investments in the agricultural sector with emphasis on productivity improvements, value-addition and expansion of land utilization. In addition, this could reduce unemployment and contribute towards poverty reduction.
It is imperative for member countries to undertake reforms in their financial sectors, especially as effective financial intermediation is critical to attracting both domestic and foreign investments. Given that, the financial system of many member countries is not sophisticated, there is the need for safeguard mechanisms in the process of financial sector reform. In this context, it is important to accord priority to mainstreaming of Islamic finance, especially due to its inherent link between productive resources and financial assets. In addition, it is important to establish early warning mechanisms through robust regulatory frameworks to prevent systemic disturbances and minimize the risks of bubble effect arising from the international financial system.

In the medium term, member countries need to intensify institutional and human capacity building to improve the quality of macroeconomic management in order to benefit from the lessons of the crisis and the recovery process. This is essential for minimizing the risks and maximizing the benefits of emerging global economic landscape. It is very important for member countries to diversify their economic activities based on strong linkages between domestic production and consumption. Aggressive development of SMEs and nurturing them to grow by providing appropriate incentives is very fundamental. This will go a long way in creating employment, reducing poverty and achieving sustainable growth.

The Role of the IsDB Group

In line with its south-south orientation, the IDB Group will intensify its catalytic role in fostering south-south cooperation as the cornerstone of regional and interregional economic integration for achieving mutually reinforcing inclusive growth. This is essential for member countries to minimize risks and maximize benefits arising from the post-crisis global economic landscape. As part of its efforts to cushion the effects of the crisis, the IsDB Group is targeting the most vulnerable member countries and high multiplier sectors in member countries in its project financing. This stems from the need to ensure that project implementation creates significant employment opportunities towards achieving poverty reduction. In addition, the IsDB Group is intensifying efforts to promote the mainstreaming of Islamic Finance to enhance productive financial intermediation for engendering sustainable and inclusive growth in member countries.

The IsDB Group is of the firm conviction that, even though the recovery horizon is uncertain, there are avenues for re-alignment of global productive forces to create opportunities for more people to participate in productive activities and increase their consumption of goods and services towards addressing the global imbalances, achieving steady global economic growth and significant poverty reduction.

With these thoughts and on behalf of the IsDB Group, I wish the Development Committee, fruitful deliberations in its 81st Meeting. The IsDB Group, as always, remains committed to global synergy for addressing global development challenges.

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