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Speech

by the Federal Minister of Finance

Hans Eichel

on

The challenges of global governance – The Role of the G20

at the

Hertie School of Governance

in Berlin

on 01 November 2004

Dr. Endres,
Ladies and gentlemen,

If a Hollywood movie with a South African actress in the leading role and financed with German funds wins an Oscar, is that globalisation? Or is globalisation most visible in our everyday life when Germans drive French cars, wear Italian fashion, use Finnish mobile phones and have a Japanese TV at home? And is the bulk of organized crime as much a part of globalisation as international terrorism?

Yes, globalisation is all of these things. We are currently living through a phase where the balance in the global economy is shifting. It is becoming apparent that values and patterns of consumption as well as environmental problems and crime stop neither at national nor at continental borders.

Opportunities and risks of globalisation

Policy-makers and society as a whole have to respond to these developments. In general, globalisation presents every country with tremendous opportunities for long-term benefit. We can only profit fully from these opportunities, however, if we are prepared to face up to the challenges posed by globalisation.

For one thing cannot be ignored: Globalisation has greatly increased the competition for business, capital and labour, and in the product markets.

Technological progress also has intensified the international division of labour so that the creation of value is no longer restricted to individual countries.

Germany benefits from globalisation

Germany clearly benefits from globalisation as it is closely integrated into the international division of labour.

German companies are successfully competing in international markets and are thus creating or maintaining jobs in Germany. For example, 100,000 new jobs have been created in Germany since 1995 in the automobile industry – a sector of the economy which is highly globalised.

However, the current events at "Opel" show that this cannot be taken for granted. On the contrary: In view of the strong competition from emerging market economies and Central and Eastern European

economies in particular, German companies have to strive constantly to maintain their competitive edge in international markets.

Is Germany a bazaar economy?

Ladies and gentlemen,

To stay competitive, some companies have to shift part of their manufacturing capacity abroad. But this trend is not a negative statement about Germany as an industrial location!

A media-savvy professor from Munich argues that this outsourcing and the growing proportion of imported inputs are proof that Germany is becoming a "bazaar economy"; if you look to the great success of German companies in export markets, this thesis is – to say the least - debatable. Most recently, the Deutsche Institut für Wirtschaftsforschung (DIW) published a critical riposte.

Moreover, the trend towards shifting production abroad seems to have declined in recent years. Increasingly, companies are becoming aware of the attendant risks such as higher costs for coordination and quality control.

It is the example of the automotive sector, in particular, which is proof of the fact that shifting production abroad does not necessarily mean that jobs are lost at home.

Globalisation and structural reforms

Maintaining competitiveness is not the responsibility of industry alone. Policy-makers, too, have to regularly re-assess the framework conditions in Germany and to make adjustments and changes, where necessary.

The government policies presented under the heading of "Agenda 2010" are aimed precisely at this modernisation. The structural reforms in the health sector, the statutory pension system and the labour market contained in this programme are needed to put in place the conditions for more growth and employment in Germany.

International regulatory framework

Ladies and gentlemen,

Even if every country takes the necessary measures at home, we have to realise that not all challenges of globalisation can be tackled at a national level.

With the international community becoming ever more integrated we have to find a way to define a viable international regulatory framework to resolve global issues.

Shaping globalisation together

Ladies and gentlemen,

So far, this regulatory framework can be defined only through enhanced co-operation among sovereign states.

When talking about the impact of globalisation on the international community, many people fear that nation-states will lose a degree of sovereignty. In my view, this fear is largely unfounded. Especially if you look to the legitimacy and the implementation of policy decisions there is no indication that in the near future global problems can be resolved successfully without nation-states.

Not least as a reaction to the terrorist attacks of 9/11 or the Asian and Russian financial crises, the scope of international co-operation has broadened and its forms have become much more focused in recent years.

The role of the G7 and the G20

The G7 has been playing a lead role in this context. Since its inception thirty years ago, this group of major industrial economies has intensified co-operation to coordinate economic, financial or trade policies which affect the global economy.

However, the financial crises of the 1990s showed that there was not enough dialogue with emerging economies on international financial issues. For this reason, in 1999 during Germany's presidency of the G7/8, the G20 was established as an informal discussion forum for the finance ministers and central bank governors of the most important industrial and emerging-market economies.

In addition to the G7 countries and the European Union, the G20 brings Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Turkey, Saudi Arabia and South Africa together around one table.

Priorities

Instead of making formal decisions and monitoring how these decisions are implemented, the G20 members want to lead by example to ensure that internationally-accepted standards are applied in practice.

This approach has already proved valuable, especially in the areas of financial market stabilisation and combating money laundering and terrorist financing.

In addition, the general principle applies that decisions are made where the direct responsibility lies. It is the governments of the individual member states who must decide on concrete reform measures and who must answer to their own national parliaments. This, too, is a strength which underlines both the G20's ability to act and its potential.

The potential of the G20

Quite a lot has already been achieved in the past five years. The G20, for example, was instrumental in ensuring that internationally-accepted standards for greater transparency and financial stability have been implemented in many countries.

The effectiveness of this group is certainly enhanced by the fact that it deals with a limited number of issues. Since the very beginning, the G20 has focused on the stability of the international financial system and on globalisation.

At the same time, the fact that its core is rooted in financial issues (as represented by finance ministers and central bank governors) ensures mutual understanding and common interests.

In addition: In contrast to the G7/8, the G20 brings all of the most important actors together: Today, there can be no discussion of capital account liberalisation, financial stability, oil prices, exchange rates, terrorist financing or tax evasion without the G20 members. The G20 represents two-thirds of the world population; its members account for 93% of global GDP.

It is not without reason that many observers accord the G20 an important role – for some, even the most important role in the future – in global governance.

The future of the G20

The G20 has not yet fully exploited its potential. The intensive exchanges have established a solid common basis which must now be broadened. The increased sense of responsibility felt by all the members for their respective regions and the global economy as a whole must be further strengthened.

During its chairmanship, Germany is trying to raise the profile of the G20 so that it can make full use of its role in shaping globalisation. During my visits to a number of emerging countries in the course of this year (Brazil, Argentina, South Africa, China and India) this position was widely supported.

G20 Ministerial in Berlin

We have set ourselves ambitious goals for the Ministerial in Berlin on 20 and 21 November. Our guiding principle will be long-term sustainability in policy-making.

Consequently, this year's working programme is focused on three main areas:

- Promoting the forces for global growth
- Promoting institution-building in domestic financial markets, and
- The importance of regional economic and political integration.

Strengthening the long-term forces for growth

The world certainly needs strong economic growth. For the benefits of globalisation to reach as many people as possible in the world, growth needs to be sustainable and to have a stable framework.

Therefore, we want to discuss the causes for the differences in growth rates across the regions of the world. The aim is to identify the best strategies to achieve non-inflationary sustainable growth. The economic, fiscal and reform policies of all G20 members should be geared towards this goal.

Strengthening domestic financial markets

We will also discuss the issue "Developing and strengthening domestic financial markets and their integration into the international financial system".

A sound domestic financial system can help countries with high foreign-denominated debt to reduce their foreign-exchange risk and mobilise domestic savings for investment. The aim is to reduce vulnerabilities across the globe. The G20 can help to identify successful strategies towards this goal.

Enhancing regional integration

The third focus of our discussions will be "Regional integration in a global framework".

Today, emerging markets are becoming global engines for growth. We need to ensure that in future they will also be forces for global economic stability. Therefore, the emerging market economies should take responsibility for their respective regions and in accordance with their economic and political weight.

Follow-up

Apart from these priorities, the abuse of the international financial system remains an important issue for the G20. Combating the financing of terrorism and money laundering are huge challenges for the international community.

Abuse of the international financial system

Thus, we will continue our discussions on the "Abuse of the international financial system" in Berlin.

One aspect of this discussion is the fight against tax avoidance and tax evasion. Recently, the World Bank reported that emerging and developing countries lose \$ 50 bn annually through harmful tax practices. I believe that a consensus among the G20 could be of particular benefit in effectively countering tax evasion and avoidance.

This applies also to the definition of and support for measures restricting the possibilities of abusing the international financial system for the purposes of financing international terrorism.

Market players need to be confident that financial markets are adequately protected from criminal activities. National and international supervisory structures and forms of co-operation must remain flexible in order to be able to respond to new trends in the financial sector.

Principles for stable capital flows and fair debt restructuring in emerging markets

Last but not least, we will try to achieve further progress on the issue of "Facilitating sovereign debt restructuring in case of financial crisis".

Unfortunately, a generally accepted set of rules for dealing with sovereign default does not yet exist. International banks and emerging markets are working on such a Code of Conduct. I am confident that we will be able to take note of significant progress at the ministerial meeting. In my view, the G20 should call for the work on this Code to be continued with determination.

Closing comments

Ladies and gentlemen,

“The world can be changed. The future is not a matter of destiny.” These are the words of the German futurologist Robert Jungk.

I have no doubt that our joint efforts – especially within the G20 – will in the future make this world a place well worth living in.