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**Statement by Mr. Jin and Mr. Bai on 2021 External Sector Report  
(Preliminary)  
Executive Board Meeting 21/73  
July 16, 2021**

We thank staff for the insightful and well-balanced External Sector Report (ESR), which provides a holistic assessment of the global external balance from a multilateral perspective. In 2020, the overall global current account surpluses and deficits edged up amidst the COVID-19 crisis, and the outlook for global external positions in 2021 remains highly uncertain. We welcome and support the call in the ESR for avoiding export curbs on vaccines and vaccine ingredients, rolling back restrictions to trade and tariffs, and strengthening the rules-based multilateral trade system. We stress that strong multilateral cooperation is needed to resolve underlying trade and technology tensions as well as gaps in the multilateral trade system. We broadly agree with staff's assessment and would like to make the following comments.

**Reducing excessive external imbalances requires carefully calibrated macroeconomic policies and structural reforms.** We positively note that global balance would have continued on the declining path without pandemic-related shifts and policy responses. The Fund's multilateral approach suggests that global excessive imbalances were broadly unchanged in 2020 at about 1.2 percent of world GDP, with about 72 percent of the excess balances pertained to advanced economies. Near-term priorities for countries are still containing the COVID-19 crisis, while in the medium term, appropriate macroeconomic policies and structural reforms are needed, to address the underlying macroeconomic, structural, or policy distortions underlying excess external imbalances. It is necessary for countries with excess deficit to increase saving and reduce excessive consumption, and adopt measures to improve competitiveness. In the meantime, countries with excess surplus should encourage investment and consumption and strength social safety nets.

**Given many transitory factors have been driving the current account balances since the COVID-19 crisis, we support staff to make needed adjustments according to some transitory shocks to commodity price, household spending, remittance, and tourism receipts.** The outlook for trade and current account balances remains highly uncertain. We are concerned about several key potential risks to the global external outlook, including the resurgence of the pandemic, slowdown or reversal of trade integration, and disruption to the global supply chain. Another round of sudden capital flow reversals could be triggered in some EMDCs due to an abrupt tightening of global financial conditions. Looking ahead, effective vaccination rollout will be critical to the global recovery and external rebalancing, especially for countries that have been hardly hit in their tourism and remittance sectors.

**We appreciate staff's view that priorities should be phasing out/rolling back tariff and nontariff barriers, including on medical products, and addressing gaps in the rules-based multilateral trading.** It is necessary to point out that under the pandemic situation, maintaining a reliable supply of medical and basic goods is extremely important to the world, even if trade in these goods may lead to a temporary widening in external imbalance. It has become clear that imposing tariffs cannot reduce a country's external imbalances, but rather distort global trade, burden domestic consumers, and hurt global growth. We share staff's concern that currency-based countervailing duties pose significant risk and damage to the multilateral trade and international monetary systems. These restrictions to trade are counterproductive to all countries and should be rolled back or avoided. Trade disputes should be solved under a rules-based multilateral trading system, or through constructive reform of the system. National security concern should not be abused to dismantle the rules-based global trade system.

**We welcome staff's analysis on fiscal policy and external adjustment in Chapter 2.** To mitigate potential adverse outward spillovers of major economies, we encourage staff to continue monitoring the development of macroeconomic policy in major economies, and provide timely advice addressing structural issues affecting external competitiveness. In addition to the fiscal and monetary stimulus in major developed countries, the early rebound of investment and consumption in China (due to its effective control on the pandemic) has also helped boost the commodity price and alleviated the pressures on many commodity exporters.

**China's external position in 2020 improved with continued rebalancing efforts and was assessed as being in line with medium-term fundamentals and desirable policies.** We broadly agree with this assessment. The flexible exchange rate seems to have played a key role for this result.