



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)



SIXTY-EIGHTH MEETING
DUBAI, UNITED ARAB EMIRATES – SEPTEMBER 22, 2003

DC/S/2003-0059

September 22, 2003

Statement by

Hon Jaime Quijandria Salmon
Governor of the Bank
Peru

Representing Argentina, Bolivia, Chile, Paraguay, Peru and
Uruguay at the Joint Annual Discussion

Statement by the Hon. Jaime Quijandría Salmón,
Governor of the Bank for Peru,
at the Joint Annual Discussion

We welcome the proposed agenda for our Development Committee meeting. We think the topics are well chosen and highly relevant. Policy reforms in developing countries and quality financial assistance are fundamental for speeding up the progress towards achieving the Millennium Development Goals (MDGs); enhanced voice and participation by developing countries improve development effectiveness and are important elements of the Monterrey Compact; and trade liberalization in both, developed and developing countries, is the single most important policy in terms of its contribution to achieve the MDGs. The deliberations on these themes are well complemented with the report on Monitoring Progress in the MDGs, which is a necessary element to foster global mutual responsibility and accountability.

We will in turn comment each of these themes with an open mind to determine where we are in our quest to fight poverty and clarify our path forward.

A. Supporting Sound Policies with Adequate Financing

We welcome the significant work put into the elaboration of the background paper on this topic, and particularly its country focus. The paper clearly spells out the differences among groups of countries as far as the status of their institutions and the quality of their policies is concerned, and derives differentiated aid and reform needs for each group of countries to achieve the MDGs.

One of the main results of the analysis shows a clear, though incomplete, vision of the role of aid and domestic policy reform in middle-income countries (MICs). In particular, it states that the role of aid is marginal for lower MICs because they have the capacity to raise funds domestically and/or in the international markets to fight the pockets of poverty, where they have problems to reach the MDGs. **In this context, we are certain that trade liberalization, including temporary labor migration, is much more relevant to the MICs than the marginal aid they receive. These countries have stronger institutions and less institutional and supply constraints to profit from the expanded export market.**

Therefore, we think that at least for the MICs, the approach is incomplete, as it should include overall trade liberalization in the analysis of required aid and reforms. Inclusion of trade liberalization in this exercise would diminish aid requirements and would be a far more efficient and effective way to advance towards the MDGs. **Market access does not require the harmonization of policies and to time and sustain aid; its impact on policy reform is more direct, clearer in terms of governance problems and a fiscal win-win situation for industrial countries.**

Moreover, strong policy reform synergies can occur. If industrial countries take the lead in trade liberalization, the feasibility of further liberalizing trade in developing countries is enhanced; because the adjustment costs of the reform would be significantly less if market access for their exports to developed countries is increased.

The recommendations on aid modalities are mostly silent on the issue of tied aid and harmonization and on the rising costs, for all actors involved, of increasingly complex environmental and social safeguard policies. Compliance with safeguard policies and slow progress in harmonization and in untying aid, are taking a growing amount of resources and time from the lending and borrowing institutions. These themes are capturing an ever-increasing part of the aid and domestic budgets in developing countries, to the detriment of allocating aid to core development activities.

The issue of linking additional aid allocation to deepening policy reforms is basically the same mechanism of conditionality that has been followed in all structural adjustment operations since the concept was introduced in the 80s. What is different in the implementation of such proposals now?

B. Voice and Participation

Enhanced voice and participation of developing countries in the Bretton Woods Institutions (BWIs) is beneficial for development effectiveness, ownership of reforms, and to increase the legitimacy of the BWIs.

The deliberations on this topic have been centered excessively on the change of the voting structure and on indirect forms of enhancing participation, such as strengthening the Executive Directors offices, decentralizing staff and promoting diversity in the higher management layers.

We think that to advance further in the agenda of voice and participation, additional work has to be carried-out. The rules of operation of the governing bodies of Regional Development Banks should be studied and compared with those of the World Bank and the IMF. This piece of information is still required for a well-documented approach to the issue. Specifically, we should compare rules for qualified majorities and different ways of voting, among others, and draw lessons for the BWIs. We expect a study on this matter for our next Spring Meeting.

We concur with the general views expressed in the Progress Report and support the indirect actions outlined to improve Voice and Participation of Developing and Transition Countries. More specifically, we welcome the points related to Diversity and Decentralization and the recommendations by the Task Force on Enhancing Capacity in Executive Directors' Offices. We agree that diversification through wider participation of part II country staff in managerial positions at the Bank will enhance the poor countries' voice in Bank's decisions. Likewise, allocating more decision-making and operational staff to developing and transition countries will

provide additional opportunities for better- informed and ownership-driven participation. With regard to the set of proposals outlined by the Task Force, we support further discussions on the areas identified as means for potential improvements, in particular a more widely use of secondment of developing country officials at the Bank, and financing of independent studies by the Board.

On the IDA and IBRD's voting and capital structure system, we agree with the view that those topics require strong political will and the capacity to reach consensus on a package of measures, on which we think further analysis should be completed in the near future and discussed internally as a whole in the Bretton Woods Institutions.

C. Trade Liberalization

“It is essential for developed countries to do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture and clothing, which are of particular importance for developing countries.” (Development Committee Communiqué. April 13, 2003).

“What developing countries need is trade, not aid.” (Raul Prebisch, UNCTAD 1963).

The main challenge for us in this time of uncertainties, deepening inequalities and slow growth is to experience a worldwide structural shock that would allow the world a breakthrough in growth and poverty reduction. Implementing this global reform is imperative. Despite the transitory set back in Cancun, we have to make every effort for a successful conclusion of the Doha Round, to move forward in the liberalization agenda. Let us learn from history and advance decisively in the Doha Round.

The most protected goods in industrial countries are precisely those which liberalization would benefit the poor the most: agriculture and labor intensive manufacturing (textiles and clothing).

Border and subsidy protection (including widespread anti-dumping) substantially deter trade, employment creation and poverty reduction in developing countries. This situation will clearly make it impossible to achieve the MDGs by 2015 if the status quo persists. Moreover, agricultural protection in industrial countries has severe negative environmental effects due to the intensive use of fertilizers in old lands and the consequent water contamination.

We do not need to abound on examples of the negative effects of protection on all participating actors in the international trade of goods and labor. We know too well the figures in terms of subsidy costs and of the forgone gains from freer trade. It is enough to say that by phasing out non-tariff barriers and export subsidies and lowering tariffs to a 0-15 % range in all countries, world income would increase in US\$518 billion

per year. Developing countries would benefit by US\$349 billion per year with this liberalization exercise. Complementing merchandise trade liberalization with increasing commitments in the General Agreement on Trade in Services (GATS) to liberalize temporary labor migration could add as much as US\$170 billion per year to the gains from trade, with an increase in the cross-border flow of labor equivalent to only 3% of the industrial labor force. **It should be clear by now that trade liberalization is not only more efficient than aid, but it is also financially more robust because income gains derived from overall trade liberalization are a multiple of the flow of official development assistance.**

Let me add a concern about the widespread increase in lending, capacity building and technical assistance for trade facilitation. There is a need to discuss in more detail the sustainability and expected outcomes of these efforts. In this respect, we are convinced that having an important increase of supply of trade facilitation without enhancing the corresponding demand for these services through expanded market access could result in a significant waste of time and resources in developing countries.

The time has come to translate Monterrey commitments into realities on the ground, and a very significant step is to advance toward a good Doha outcome along the lines of the above proposals and in line with Development Committee compromises, to set off drastic poverty reduction, renewed and sustained growth, and a more coherent trade regime for the world.

D. Global Monitoring of Policies and Actions for Achieving the MDGs and Related Outcomes

We thank staff for this update in preparation of the first full report for the next Spring Meeting.

The paper does not allocate much space to the monitoring of developed countries, as compared to that of developing countries. We will concentrate our comments on how to better monitor policies and actions in developed countries.

On macro policies, we ask for the development of specific metrics to measure progress in crisis prevention and resolution, as well as on progress in reducing volatility of capital flows to developing countries within the context of the international financial architecture.

On trade we ask that, in addition to developing an index for a comprehensive measure of trade protection with the WTO and perfecting the IMF index of trade restrictiveness, a measure to quantify losses of market access by trade diversion or trade destruction be developed. This measure could be built based on the experience in monitoring the evolution of market access in specific agricultural commodity studies performed by the WB, and more studies of this type should be performed and monitored with the same approach. A crucial issue that should be monitored in detail in each

progress report is the evolution in eliminating distortions for freer trade of textiles and clothing as well as of agricultural goods.

We would like to see some measurement of the changes in market access for developing countries, derived from the effects of the new US farm bill and the EU agricultural policy changes, the implications of the accession to EU for market access and the implications of increasing anti-dumping measures for market access. In sum, we are asking to monitor not only the degree of protection via tariff and non-tariff barriers, but also the negative results of that protection.

On aid, we urge to report more specifically on the evolution of tied aid indicators as well as on the metrics to measure progress in aid harmonization. We also urge to differentiate real aid that goes to core development activities, from aid used for administrative and other purposes along the lines of Paragraph 52 of the paper on Supporting Sound Policies with Appropriate Financing.

On the environment, we think the report should include monitoring the pollution of developed countries, in addition to that of developing countries. For some industrial countries the amount of pollution per day is 20 times larger than the average pollution per day in poor countries.

We expect these comments to be reflected in the revision of the proposed outline for the forthcoming Global Monitoring Report.