Statement by His Excellency Hamad Al-Sayari
Governor, Saudi Arabian Monetary Agency
Saudi Arabia
Thanks to the efforts of the international community, the risks to the global economy since the recent financial crisis in Asia have declined, and the recovery appears to be picking up momentum. Growth in world output has become more broadly based and is stronger than a year ago. In some industrial countries economic growth has been more robust than expected, while in others there are signs of growth strengthening or picking up. In the developing countries, growth, which is estimated by the World Bank to have reached 3.3 percent in 1999, is expected to strengthen further to 4.6 percent this year. This growth is based on a strong recovery of global trade, and on the firming of commodity prices.

As indicated in the World Bank’s Global Economic Outlook, the recent recovery in oil prices, which has followed a quarter century of decline in real terms, has not led to an acceleration of international inflation or a dampening of growth. Contrary to perceptions, there is no significant link between oil prices and international inflation. Policies of major industrial countries matter more. What is also true is that volatility of commodity prices makes economic planning and adjustment, especially for commodity exporting countries, very difficult. An important factor contributing to such volatility is policies of countries that are major consumers of these commodities. Such policies include large farm subsidies that encourage over-production of agricultural products, and excessive taxation of oil. Nonetheless, the recent decision by OPEC countries with the active role of Saudi Arabia to increase oil supplies, is an important contribution by OPEC and other producers to stabilize oil prices. The industrial countries should assume greater responsibility for achieving the desired stability. They have the means to roll back oil taxes to alleviate concerns over inflationary pressures. In fact, excessive taxation distorts resource allocation.

The recovery in global trade and growth is indeed encouraging. Even more encouraging is that a large number of developing countries, which have suffered significant declines in real incomes during the recent financial crisis, will see a return to positive per capita growth this year. However, some 41 countries, with over one billion people, will have just barely achieved positive per capita growth by the end of this year. Most of these countries are low-income and/or commodity exporters, who have not as yet been able to successfully integrate in the global markets and capture the growth-inducing benefits of trade. It is therefore timely and appropriate that the agenda for this meeting of the Development Committee focuses on trade as an engine of growth and poverty reduction, and on the Heavily Indebted Poor Countries and small states, which are most vulnerable to external shocks and epidemics.

As the paper on Trade, Development and Poverty Reduction argues, the reasons for the failure of the majority of the poorest developing countries to grow and to integrate into the global economy as rapidly as other developing countries, are complex. They reflect initial conditions, including relatively low investments in infrastructure and human capital development, as well as protection against their exports.

The experience of developing countries that achieved rapid integration in the global economy shows that infrastructure and human capital development are needed for reaping the benefits of trade liberalization. In this context, the appropriate renewed Bank emphasis on the social sectors should not detract the Bank from also supporting infrastructure projects. Besides its contribution to trade, infrastructure investment contributes directly to employment and poverty reduction.
Lowering trade barriers between developing countries is certainly important, and could further stimulate South-South trade flows. But, removing trade barriers, which the industrial countries impose on developing countries’ exports, is by far more important. There are at least two reasons for this. First, while industrial countries’ tariffs are on average lower than tariffs imposed by developing countries against each other, they are highest in areas where developing countries have comparative advantage. As noted in the paper for example, some industrial country tariffs on products of interest to developing countries include 826 percent on meat products in the EU; 781 percent and 123 percent on processed food products and footwear, respectively, in Japan; and 147 percent on fruit and processed food products in the United States. It does not make sense, therefore, to ask poor countries to open up their markets while they are denied access to industrial countries’ markets for products in which they have a clear comparative advantage.

Second, non-tariff barriers usually accompany industrial countries’ tariffs especially but not exclusively against agriculture. These barriers include quotas, marketing arrangements, export subsidies and other forms of agricultural support programs. Consequently, protection by industrial countries is more effective at blunting competition and growth of developing countries’ exports. By the same argument, and given the size of markets in industrial countries, removing protection by these countries would benefit their own consumers, reduce distortions in resource allocation, and provide a much greater impetus to expanding and accelerating trade flows and global welfare.

There is a good body of research, including in the IMF, on the effect of trade on wages and employment. By and large, this body of research tends to show that for the industrial countries as a whole, trade with developing countries has had a modest effect on wages and income inequality, and some of these effects are explained by technological change. This research should address the claims or fears of protectionist constituencies in the industrial countries, particularly with respect to the presumed effect of imports on wages, employment, and income inequality. The Bank and the Fund should strengthen their research in this area. At the same time, the staffs of the two institutions should not shy away from highlighting the impact of industrial countries’ trade barriers and policies on developing countries.

The empirical evidence, therefore, strongly support the efforts of the Director-General of the WTO to impress upon the industrial countries to grant LDCs duty-free and quota-free access for their exports. Of course, much work is still needed to help the rest of the developing countries access the WTO to participate more effectively in the world trading system. It is important for the WTO to address the concerns of all members irrespective of their level of development. It is also important to slow down the process of framing world trade regulations in order to allow more time for developing countries to understand the full implications of the obligations resulting from the Uruguay Round.

The initiative by the Director-General of the WTO to impress upon industrial countries to grant LDCs’ exports free access, needs to be expanded to all the Heavily Indebted Poor Countries, as advocated by Mr. Wolfensohn and Mr. Camdessus in Seattle and Bangkok. Indeed the complementarity between debt relief and enhanced market access is critical for accelerating growth in these countries, for reducing poverty, and for keeping current on servicing their remaining debts. Estimates by the staffs of the two Bretton Woods institutions indicate that
agricultural liberalization by industrial countries alone could yield annual global benefits worth over US$40 billion. In other words, in only one year, the benefits from agricultural liberalization alone would amount to about one and a half times the total reduction in debt under the enhanced HIPC initiative.

Arab and regional multilateral funds in which Saudi Arabia is a major shareholder, such as the OPEC Fund and the Arab Bank for Economic Development in Africa, despite being funded by middle-income developing countries, have been participating in the HIPC initiative. Indeed, as acknowledged by the staffs of the two Bretton Woods Institutions, Arab multilateral funds were among the first to participate in the original HIPC.

The financing requirements under the new enhanced HIPC framework, have doubled for the international Multilateral Development Banks and have exceeded their capacity to fully meet their obligations. Unfortunately, this has shifted a greater share of the burden on IDA, which could undermine its ability to adequately serve its other client countries. For some non-Paris Club creditors, including Saudi Arabia, and for the Arab regional multilateral funds, the enhanced HIPC framework has increased the cost many times more. Consequently, the Bank and the Fund should continue to consult with the Arab multilateral and bilateral donors to tailor modalities that reflect their special circumstances and capacity, without impairing their ability to continue to provide adequate international development assistance.

More and more HIPC-eligible countries are developing their own poverty reduction strategies, which could be supported by the Bretton Woods Institutions and the donor community. If successfully implemented, these strategies could be more effective in the fight against poverty and improve the prospects for achieving the International Development Goals for 2015. But, implementation of these strategies will require substantial resources beyond what could potentially be made available through the enhanced HIPC Initiative. Effective implementation, however, will constitute a major challenge.

The way forward is for the major countries to show greater responsibility by providing IDA a larger share of the needed resources in addition to the normal replenishment. Equally important is for the industrial countries to provide free access to the exports of HIPCs, which would generate substantial additional resources that the poor countries can use to fight poverty.

Many of the countries eligible for debt reduction under the enhanced HIPC Initiative are in Africa, a region that has experienced the most severe impact of the spread of the HIV/AIDS epidemic. AIDS has claimed almost 14 million African lives, accounting for 85 percent of the global toll. The social effects have been especially severe. In the hardest hit countries, adult and child mortality rates have doubled, and life expectancy will soon be 17 years shorter than it would otherwise have been. Left unchecked, HIV/AIDS more than any other factor could swiftly dismantle the development achievements of affected countries.

Given that the poor suffer most from HIV/AIDS, it touches at the core of the Bank’s overarching objective. The Bank has a role to play. Working with other partners, the Bank can do more to raise awareness of governments of the cost of late action and the benefits of early action. It should encourage IDA countries, especially, to use the funds that are currently available for this purpose. In fact, the experience in Africa should enable the Bank to be much
more proactive and imaginative in joining other partners with their fight against this epidemic. Here, I note the Bank’s involvement in UNAIDS and welcome it. I also attach particular importance to research and the development of vaccines that will be effective and affordable in developing countries. In this context, I welcome the Bank’s active involvement in the Global Alliance for Vaccines and Immunization.