Statement by

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on behalf of Argentina, Bolivia, Chile, Paraguay, Perú and Uruguay
FINANCING FOR ACHIEVING THE MDGs, DEBT RELIEF, AND THE AFRICA ACTION PLAN

We welcome the efforts made by the G8 to present an ambitious package both in terms of doubling aid to Africa by 2010 and providing debt relief to heavily indebted countries, as well as the new financing initiatives brought to the table by other countries. We are also glad to see growing consensus among development partners to spare no effort in order to accelerate convergence toward the Millennium Development Goals in Africa and elsewhere.

As discussions on the best way to implement these proposals continue, we are confident that stakeholders will agree on a formula and on specific procedures that will preserve IDA financial integrity while debt relief is provided. In that respect, a prudential approach is necessary in light of the huge impact of irrevocable debt cancellation on IDA balance sheets.

Ensuring equity and uniformity of treatment among IDA borrowers is important. We have noted that “blend” countries would not benefit from replacement donor resources, even though their development needs may increase in the years to come. In that respect, it would be important to ensure additionality also for these countries in order to achieve the MDGs. We would like the G8 to also consider the possibility of funding themselves the reduction of the entire debt with international financial institutions of the Latin American and Caribbean countries being part of the scheme. In other words, we are concerned that implementation of the plan as it is so far will end up reducing Latin America’s share of concessional funds.

We find the Action Plan for Africa both ambitious and realistic. While it is important to maintain ambitions high in order to reach as many MDGs as possible, we believe that the real objective should be to make solid and steady progress and sustain it far beyond 2015. The focus on drivers of growth, infrastructure, and human development seems appropriate. It is by investing in infrastructure and empowering its people that the region will unleash its great productive potential.

The increasing aid flows will help Africa if used wisely, although the risk of generating aid dependency can not be discarded. Degrees of freedom and dependency are opposites and every policy maker is aware of how important these concepts are. In that respect, the developed world has the means to help Africa and other developing countries to regain the degrees of freedom that they need to create wealth and embark themselves in a self-
sustained growth trajectory. A Doha Development Round would provide more resources to developing countries than any conceivable aid package.

**BREAKING WITH AID DEPENDENCY: THE CASE FOR A DOHA DEVELOPMENT ROUND**

“The persistence of discriminatory and inequitably policies in international trade is included in this list of impediments to development, both for the poorest nations and for middle income countries such as my own”.

*President Néstor Kirchner, UN Summit, September 14, 2005.*

“Although we are doing our job and keeping our house in order, although we can say that we have embraced the good governance model endorsed in Monterrey, when we go into the world, we are confronted with barriers obstructing our growth … agricultural subsidies”.

*President Ricardo Lagos, UN Summit, September 15, 2005.*

“The purposes of the Bank are … to promote the long-range balanced growth of international trade”  
*Articles of Agreement, Article I, para. iii.*

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Gunnar Myrdal, the Swedish Nobel laureate, made a seemingly odd prediction in 1968: there would be little hope for Asia in the years to come, whereas Latin America and Africa would grow and catch up with the developed world.

As a matter of fact, some of the things that went wrong later for Latin America and Africa were not obvious or inevitable facts by the time Myrdal wrote his acclaimed book. In that respect, we must underscore the declining trend of their terms of trade and a reduced regional share of world exports. Agricultural products account for at least 25 percent of exports from Africa and Latin America. For instance, between 1980 and 2000, real prices of wheat and rice dropped about twofold, prices of cocoa more than threefold, and sugar about fivefold.

According to the World Bank, African non oil-exporters had cumulative terms of trade losses that amounted to 120% of GDP in 1970-1997 and offset cumulative aid flows (125% of GDP in 1974-1997). These losses, combined with interest payments, remittances and capital outflows, resulted in a net transfer of resources from Africa to the rest of the world. Also, the erosion of Africa World Trade’s share represented an annual income loss of $68 billion in 1970-1993, the annual equivalent to 20% of the regional GDP.


Without fully subscribing to the *endowment thesis* -as solid institutions, good governance, and sound macroeconomic policies are also essential for growth-, it is apparent that the huge decline in terms of trade took a heavy toll and severely undermined growth performance both in Africa and Latin America.

Among the causes of the declining trend of the terms of trade, we must mention the many distortions in agricultural markets and other primary commodities markets caused by subsidies, tariffs, and non-tariff barriers in the developed world.

It is noteworthy that, contrary to what is commonly believed about preferential treatment, rich countries give in fact an *adverse preferential treatment* to poor countries, whereas developing countries impose fewer restrictions on imports from high income countries than on those from the developing world.

The World Bank has developed an index of overall trade restrictiveness (OTRI) that factors all trade restrictions and preferences and takes them into an overall consolidated equivalent tariff rate. The analysis\(^3\) reveals that high-income OECD countries impose more trade restrictions on imports from low-income countries than on imports from all countries. In particular, the second largest world economy stands out from the OECD group for having an OTRI for low-income countries that almost doubles restrictiveness for all countries.

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<tr>
<th>Importing income group / country</th>
<th>OTRI for all countries</th>
<th>OTRI for low-income countries</th>
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<tbody>
<tr>
<td>High Income OECD</td>
<td>12</td>
<td>14</td>
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<tr>
<td>European Union</td>
<td>13</td>
<td>15</td>
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<td>Japan</td>
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<td>24</td>
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*It should not be surprising that OECD trade policies discriminate against poor countries since the latter mainly export primary products, which are also the most heavily protected commodities in the developed world.*

*Agriculture market access liberalization is by far the most critical trade issue on the Doha negotiating table from a developing country perspective. In that respect, the World Bank estimates that two-thirds of the net gains for developing countries derived from a full elimination of tariffs and subsidies would come from agriculture\(^4\). Moreover, if we take into account that 70% of the world poor live in rural areas, the liberalization of agricultural products and the elimination of subsidies could have a poverty reduction impact even on poor countries that are net importers of agricultural products.*

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\(^3\) Global Monitoring Report, 2005

It is important to bear in mind that there will not be a development round unless there is a meaningful liberalization of agricultural products. The devil will be in the details because even large cuts in bound tariffs will do little if exceptions for sensitive products are allowed. In that respect, the World Bank estimates that classifying 2% of six digit harmonized system agricultural tariff lines as “sensitive” in developed countries and subjecting them to just a 15% tariff cut would shrink global welfare gains from agricultural reform by three-fourths.

Trade is an engine for growth and development. Therefore, when the World Bank engages in trade issues, it fulfills its mandate. We encourage the Institution to keep producing high quality and independent research on this critical field.

We also believe that the Development Committee should use its advocacy role and make the wording of the communiqué clear that, unless the playing field is leveled by an ambitious Doha Round, the rules that govern international trade will remain as they are now: unfair, uneven and biased against the interest of the developing world. There is a concrete way to start reverting aid dependency, and that is a Doha Development Round.