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100th Meeting of the Development Committee

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Our semiannual meetings present us with a unique opportunity to reflect on the overarching issues of global development from a broad perspective not limited to immediate macroeconomic prospects. The World Bank is at its best when it takes into account long-term global trends and incorporates lessons accumulated by advanced and fast-growing economies in its country advice. From this angle we see the JET paper before us as a strategic document which pinpoints the most important aspects of development. Originally drafted for IDA meetings, it fully deserves to be elevated to the World Bank Group level as the visionary strategy for the entire group.

All human wealth is ultimately derived from productive work, from jobs, and so the only way countries may achieve prosperity is by fostering transition from underemployment and low-productivity traditional sector employment toward modern industrial and service sectors. To put it bluntly, wealth must be produced first before it is available for possible redistribution, and the century behind us provides us with ample evidence to demonstrate the futility of all development strategies which attempt to circumvent this fundamental principle.

Of course, economic growth is a *sine qua non* condition of such a job-based transition, as they, in fact, in many aspects reinforce each other. Still, we concur with the important observation made in the paper, that is about growth alone being not necessarily sufficient enough to lead to this transformation if growth is induced solely by rising commodity prices or consumption boom.

Thus the policy-makers need not to limit their priorities to mere growth numbers but to look closely at the fundamentals which make growth stable, predictable, and sustainable.

Just several decades ago the basic macro stability looked more like a dream goal to most of governments worldwide, and periodic bouts of hyperinflation seemed to be almost a norm for developing countries. Nowadays we often fail to appreciate the enormous success of the collective efforts of all economies as they made macro stability a global standard and allowed us to dwell upon more complex issues of development. So now we must ensure that the private sector takes full advantage of macro predictability and invests into the most productive and efficient sectors which generate good decent jobs for all. This is truly a universal challenge, and it is even more pressing for the developing countries lagging behind.

We believe that despite the proliferation of think-tanks and academic centers focusing on development issues, as well as the dramatic improvement of analytical capacity of all governments, the World Bank should maintain its leading role of knowledge provider on development issues, and must expand its policy advice to the client governments along the lines defined in the JET paper. The Bank has a full-fledged set of valuable country diagnostic tools, and these tools should be used to regularly update the governments on the most promising and country-specific policies they could implement to expand productive employment. Obviously, such an analysis must go hand in hand with financing unless the country does not find it necessary, so the Bank is able to translate its advice into practical action.
The JET paper attempts to structure various employment-oriented policies along the stages of economic transformation and cluster them into seven groups. Of these groups we find the first three (business environment, enabling markets, and trade integration), to be absolutely vital and indispensable, as they all belong to the broad domain of regulatory policies which continue to gain importance as the major and most powerful instrument of governments in their interactions with private sector.

Regulations can be either supportive of investment, or breed endless red tape and rent-seeking. As we are trying to revisit our own regulatory systems and remove the accumulated barriers, the same approach is applicable elsewhere, and the Bank is well advised to expand its role in the area of regulatory reform.

As for the remaining clusters, that is digital economy, human capital, labor markets, and targeted approaches, the list might be further increased and rearranged, as some policies can be folded together into the residual cluster of targeted approaches or disaggregated into separate clusters.

Some points made in the paper are particularly pertinent in the context of debates on the optimal development strategies for the less developed countries. Specifically, one may refer to the discussion about shifting employment from subsistence and low-productivity agriculture to industry and services, transition from informal to formal employment, the role of low wages in catching-up industrial development, challenges and factors of job creation, possible successes and failures of targeted policies, - all these issues are of high relevance to the governments of the borrowing countries. These ideas might not be entirely in line with the still too frequent condescending approaches of the traditional donor community, and if this is the case, it is even more important to bring these arguments to the fore.

For instance, such a discussion might force us to question the tendency to shift the World Bank's priorities from the inherently risky "brick and mortar" investment operations toward virtually risk-free social protection ones. The Bank was conceived to be a financier of the most complex projects rather than a dispenser of fast monies, and we urge it to remain at the frontier of complexity rather than shy away of risk and challenges.

All in all, we are glad to see that the continuous chain of flagship World Development Reports the World Bank produces annually generally reflects this view on development, be it the most recent WDR report on trade and value chains, or the previous ones on employment, education, digital dividend, governance, agriculture, and many other issues. We strongly support this analytical activity and expect the Bank to deliver first-class reports which sum up the global accumulated knowledge on the frontier areas of development. From this angle we appreciate the updates on the last WDR on trade as well as on the ongoing Human Capital cooperative research project.

Speaking of the latest WDR on trade and value chains, we took notice of its overwhelming arguments in favor of orderly and predictable global trade regime. These observations are relevant against the backdrop of the deepening processes of globalization and emerging role of trade-in-tasks and GVCs in international trade.

Safeguarding an effective rules-based multilateral trading system as embodied in the WTO is crucial in this regard. Recent global economic challenges are, to a large extent, resulting from widespread abuse of existing gaps in the multilateral legal framework.

For instance.

Firstly. The WBR referred to the need of addressing trade-distorting practices, such as subsidies, in order to sustain beneficial trade openness. However, narrowing the scope of the problem to market-distorting
subsidies alone is not fair. Distortions may result also from other types of regulations like disguised
discrimination, outright blacklists or trade restriction camouflaged under the measures not explicitly
prohibited by the current multilateral trade rules. All elements shall be addressed comprehensively.

Secondly. The global market is now threatened by growing technology gap and the factors contributing to
it. New technologies enhance the contribution of GVCs to development. Access to technologies is a “key”
to rising along the GVCs. This is crucial to the effective integration into “complex” GVCs. Nevertheless,
participation in these knowledge-intensive value chains is restricted. And this disparity is preserved through
application of barriers to the transfer of technology and diffusion of knowledge. These challenges are not
yet sufficiently dealt with in the global rulebook.

Thirdly. As mentioned in the WBR, durable firm-to firm relationships promote the diffusion of technology.
But there’s the flip side of the coin. Activities of TNCs (which are “ambitiously” involved in GVCs) that
restrain competition and limit access to markets by effectively fostering monopolistic control further on
aggravate the existing gap between the countries. These challenges also remain outside the multilateral
framework yet, despite their growing influence on global competitive environment.

The multilateral trading system has a role to play.

In general, it must be said that we are seriously concerned about some recent developments which put the
universal trade rules in jeopardy and seem to have already materially affected global economic growth.
Instances of politically motivated and unilaterally imposed trade restrictions are multiplying. It must be
admitted that the World Bank has proved not to be fully immune to politicization and unfair discrimination
against its member countries. Such tendencies diminish global trust in the Bank and jeopardize the
achievement of its mission. We are confident that the new leadership of the Bank will take appropriate
lessons from these episodes and will restore the tradition of evenhandedness befitting this cooperative
Institution.

Turning to the Human Capital project which is still at its early conceptual stage we urge the Bank to avoid
the temptation to make the ranking its most visible outcome. Global ranking projects might be deceptively
attractive to the media but inevitably mask innumerable complexities, and more often than not are either
trivial or misleading, or both. Since Human Capital ranking reflects not the current policies but the
accumulated legacy of previous decades, it is less likely to be as stimulating in terms of reforms as the
famous Doing Business project.

Finally, we take note of the paper on IDA voting rights. We broadly agree with the proposals outlined in
the paper and suggest that the review process is not unduly extended. The redistribution of IDA votes seems
to be long overdue, as the universe of IDA contributors now far exceeds the original narrow community of
traditional donors. It might be argued that massive transfers to IDA practiced by the IBRD for many years
were effectively a form of unacknowledged contribution of middle income borrowing countries who were
overcharged to make for these transfers. IDA is an integral component of the World Bank Group, and the
proper realignment of voice and votes will ensure that IDA discussions and decisions reflect the consensus
view of the entire global community.