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To: Members of the Executive Board
From: The Secretary
Subject: Excerpts from Speeches by Governors at the 1991 Annual Meetings

Attached for ready reference are excerpts from speeches delivered by Governors or submitted by them for the record at the 1991 Annual Meetings. The full texts of Governors' speeches relating to the work of the Fund will be published in the Summary Proceedings of the Forty-Sixth Annual Meetings.

These excerpts are substantially shorter than in previous years, primarily because general remarks on the world economic outlook have been eliminated as a topic. It was felt that Governors' reviews of the world economy had generally been in accordance with the Fund's World Economic Outlook, and did not reveal individual Governors' views on particular issues.

Two topics--"Military Expenditure" and "Social Impact and Consensus Building" have been added in light of particular attention to those subjects at the 1991 Annual Meetings.

Ms. Primorac (ext. 4789) is available to answer questions relating to these excerpts.

Att: (1)

Other Distribution:
Department Heads

EXCERPTS FROM SPEECHES BY GOVERNORS AT THE
1991 ANNUAL MEETINGS ON MATTERS OF FUND INTEREST

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- 8/ Norway (Governor Johnsen) - Speaking on behalf of the Governors for the Nordic countries - Bank

1. Fund's Response to Recent Developments in Eastern Europe and the Soviet Union

Canada (Governor Smee)

The situation in the U.S.S.R. has been a major focus of discussion in Bangkok over the past few days. The responsibility for adopting democratic principles and successfully implementing market-based reforms rests with the Soviets themselves. The costs of failure and the fruits of success will ultimately be borne by the Soviet people.

The countries of Eastern and Central Europe have already moved forward with reform programs. I urge the governments of these countries to persevere with these endeavors. We must stand ready to help the people of the region help themselves, as they confront their challenges.

Chile (Governor Larre) 1/

Last, there is a third historical event in our time whose possible economic impact on Latin America justifies some comment, namely the revolutionary process of transformation under way in the economies of Eastern Europe and the U.S.S.R. Advancing and consolidating this novel process will surely require considerable external financial support as well as extensive technical assistance. However, it would be unfortunate if these resources were to be channeled toward the countries in question at the expense of the support heretofore received by the countries of Latin America and other developing regions. In our opinion, these resources should stem from an additional fiscal savings effort on the part of the industrial countries and, above all, from the "peace dividend" generated by the end of the Cold War.

Czechoslovakia (Governor Klaus)

The assistance that Czechoslovakia receives from the Bretton Woods institutions is essential in overcoming external instability and in supporting the implementation of domestic reform. The stand-by arrangement and the compensatory and contingency financing facility provided by the Fund at the beginning of this year were a decisive factor in establishing internal convertibility of the Czechoslovak koruna and in obtaining additional financial support from the European Community and the Group of Twenty-Four.

France (Governor de Larosiere)

The international community has responded with remarkable speed to the opening of the centralized economies of Eastern Europe. The bold reforms initiated by governments were quickly backed by substantial financial flows and significant technical assistance. The "burden sharing" of this financing is probably not optimal today. But we can be legitimately proud

of the quickness and courage with which the Fund and then the World Bank reacted to events.

In this regard, I would like to mention how much France is pleased that Lithuania, Estonia, and Latvia have regained their independence and are preparing to join our institutions. These countries should be able to count on our support for their successful integration into the international financial community.

I will turn now to the recent developments in the Soviet Union. Since our last meeting, the forces favorable to democracy and openness have prevailed over their opponents, but this movement has gone together with a significant deterioration of economic conditions. The international community must act quickly and in coordination to consolidate this process and help sustain the unity of the Union's economic space, without prejudging the right of self-determination of its peoples. My country welcomes the recent conclusion of the Special Association agreement between the Fund and the U.S.S.R. This agreement, of course, is not an end in itself, but it does constitute a first and useful step toward full membership in the Bretton Woods institutions. It allows the Union and its Republics to start benefiting immediately from our expertise in economic stabilization and structural reform. Further, I hope that the Fund in particular, but also the World Bank, the EBRD, and other competent institutions, will enable us to better analyze the situation and define the conditions for establishing a zone of monetary stability and freedom conducive to investment growth in this area. This will require strong international coordination, but also a clarification of the allocation of powers and responsibilities among the various Republics which compose the Union as it now stands.

Germany (Governor Waigel)

The massive task of reconstruction in the Soviet Union calls for the support of all democratic forces. The Special Association of the Soviet Union with the IMF and the World Bank is now the right step to make available to the Soviet Union without delay the whole spectrum of advisory capacity of both institutions. At the same time, we must push ahead with preparations for full membership so that the Soviet side may have access to the financial resources of these institutions for the difficult path of transition to a market economy.

Important points of focus for technical assistance are to be found in the fields of energy, food supplies, transport, and the safety of nuclear power stations. In these sectors, too, there are opportunities for the Soviet Union to bring about a decisive improvement in its foreign exchange position.

With its extensive natural resources, the Soviet Union has the potential to become a favored target for foreign investment. It is in the Soviet Union's own best interest to make use of this potential for the

reconstruction of its economy. It is of prime importance to maintain the perception of the Soviet Union as a sound debtor. Concrete steps must be taken to ensure that both the Union and the Republics meet old and new debt obligations. This is essential to create the confidence which will provide a basis for further financial assistance from the West....

In Germany, we know from our own experience with the reconstruction of the east German economy that exceptional efforts are required to repair the damage caused by decades of socialist mismanagement. We can thus clearly envisage the difficulties that countries in Central and Eastern Europe will have to overcome. But there is no alternative other than carrying on with the reforms now under way. Nor is there any alternative for Western countries other than supporting these reforms to the best of their ability; it is in the interest of us all that they should succeed.

Greece (Governor Christodoulou)

Of crucial importance in the process of structural reform in Eastern Europe and the Soviet Union is the active involvement at an early stage of the IMF and the World Bank as regards both the design of the programs and the provision of adequate financial support through their own resources as well as through their role as catalysts of financial flows from other sources. We welcome the IMF and World Bank programs that have already been approved for Poland, Hungary, Bulgaria, Czechoslovakia, and Romania. Also, we warmly welcome the Special Association agreement recently concluded with the Soviet Union, which opens the way for the supply of the technical assistance required at the very beginning of the restructuring process. We furthermore firmly support the speediest possible conclusion of the negotiations for full membership of the Soviet Union in the Bretton Woods institutions, which will permit the direct financial involvement of the Fund and the Bank in support of the authorities' efforts in the near future and over the medium term.

Hungary (Governor Kupa)

I mentioned earlier the devastating difficulties that have emerged as a consequence of a more severe than expected disruption of the former so-called COMECON relations. For the Central European countries, the most important problems originate from the almost total disruption in the commercial relations with the Soviet Union. We welcome the Soviet membership application, which will contribute to the Soviets joining the world economy for the benefit of all of us. We agree that the Bretton Woods institutions should help this country to create the necessary economic conditions for membership in our institutions. Having said this, I would like to remind ourselves of a potential danger, namely, that owing to the high political voltage, the intellectual and material attention paid by us to the developments in the Soviet Union should not overshadow other important issues. This would not serve the interests of our member countries. I am representing a Central European country, which has made

substantial progress during the last two years in the transition to democratic society and a market economy. This progress clearly demonstrates not only that the Soviet and the Central European cases differ greatly, but also that these are at two different stages of evolution. But we agree on the need to provide reasonable assistance to the Soviet Union.

Indonesia (Governor Sumarlin)

The movement toward political freedom and democracy must be welcomed, as must be the recent announcement of the agreement setting out the Soviet Union's special relationship to the Fund. However, we cannot stress too strongly that it is equally important to a growing world economy and trading system that the programs in Eastern Europe and the Soviet Union not be at the expense of the developing countries. After all, Eastern Europe and the Soviet Union have large natural resources and production facilities of their own. Largely what is needed is effective mobilization and allocation of those resources.

It is necessary to make this point with great urgency, and it is not a hypothetical question. My country has already experienced the reassignment to programs in the Soviet Union of technical assistance experts on whom we set great store.

Italy (Governor Carli)

This Annual Meeting has marked the historical beginning of a new dialogue with the U.S.S.R. whose interim associate status we welcome. We look forward to the U.S.S.R. achieving full membership in the Bretton Woods institutions. The establishment of this new relationship with a country which since the war has been out of the world's international financial organizations and which is undergoing a profound irreversible transformation, is a complex task. The Group of Seven will be accompanying the new U.S.S.R. during its dialogue with the international community and during its travel to the establishment of a market economy. The Group of Seven initiative will complement the action that the international financial institutions are already undertaking. It cannot be a substitute for the role that the individual governments will have on a bilateral basis. During the present extraordinary opening of the Soviet Union, we are fully conscious of our responsibility to provide support and advice in the field of economic policy. Effective economic policy can only follow from the new institutional setting with which only the Soviet people can endow themselves.

Japan (Governor Mieno)

I find it most gratifying that a series of recent developments in the U.S.S.R. has paved the way for democracy and economic reform. I feel that it is vital for us to assist the U.S.S.R. in becoming integrated with the market economies of the rest of the world. In particular, appropriate

emergency assistance is necessary to tide it over the current difficulties in order to maintain the current momentum.

On October 8, we announced that Japan was prepared to provide the U.S.S.R. with humanitarian assistance in the form of a Japan Export-Import Bank loan of up to \$500 million to alleviate its shortage of food and medicine. In addition to this, we decided to extend export credits and guarantees amounting to around \$2 billion to facilitate troubled trade and economic activities in the U.S.S.R.

Obviously, it will be vital to the U.S.S.R. that the World Bank, the IMF, the EBRD, and other international institutions provide technical assistance and coordinate their activities as the Soviets formulate and implement reforms to establish a market economy. We therefore welcome the Special Association that was recently established with the IMF and the Trust Fund for the U.S.S.R. set up in the World Bank as these will allow even further provision of such assistance.

Nepal (Governor Acharya)

The adoption of market economies in many countries, including the U.S.S.R. and Eastern Europe, has created many opportunities and risks. This change calls for increasing cooperation from developed countries. It has also required the Bretton Woods system to advance more assistance to emerging democracies in order to minimize the adverse impact of change and make the transition successful. We support initiatives undertaken by the Bank and the Fund to assist these countries move toward market economies. We emphasize, however, that in so doing, the Bretton Woods system should make additional efforts to mobilize and allocate resources and ensure that such assistance is not at the expense of the least-developed countries and low-income member countries.

Netherlands (Governor Kok) 2/

Last year we were able to welcome the Soviet Union as an observer at the Annual Meetings of the Bretton Woods institutions. Since then, events have underscored how deep-seated the wish of the people of the Soviet Union is for democratic and economic reform.

The Fund and the World Bank are called upon immediately to offer their advice and support for the macroeconomic stabilization and structural, market-oriented reforms which are required in that country. The "special association" should lead to full membership of the Soviet Union in both institutions as soon as possible....

During this last year the Central and Eastern European countries have begun a tremendous effort to transform their command economies into market-oriented systems. In this process they have benefited from the invaluable support of multilateral organizations and institutions, such as the Fund,

the World Bank, the European Commission, the Ad-hoc Group of the Twenty-Four OECD countries, the OECD, the EIB, and the Paris Club. All should be commended for their swift and flexible response to this new challenge. Since last April a new institution exclusively devoted to the development of Eastern Europe--the EBRD--has joined the ranks. The smooth coordination of the various contributions and, in particular, the issue of sufficient financial assistance with an equitable burden-sharing between the EC and other donors remain necessary. An enhanced coordination in the provision of official financial support is now crucial to the successful implementation of the comprehensive strategy put forward under the aegis of the Bretton Woods institutions.

Pakistan (Governor Aziz)

I would now like to make a point relating to the problems of transition in Eastern Europe and the Soviet Union. To facilitate this transition, a major program of economic assistance is in train. I would urge that this assistance not be restricted or tied to certain regions or countries. By providing this assistance generously to Eastern European countries and the Soviet Union and by ensuring that it is used to buy goods from the cheapest available sources, the international donor community should help both the countries in transition and those developing countries which have acquired the capacity to provide the required goods at competitive international prices.

Poland (Governor Topinski)

For the international community, the World Bank, the International Monetary Fund, and other multilateral organizations concerned with world economic development, the recent changes in Central and Eastern Europe pose a great challenge. This "new region," which was previously isolated from the rest of the international community, is now trying to reintegrate with it, bringing new problems as well as new opportunities. The challenges of development must be supplemented with the challenges of transition, including such issues as restructuring and mass privatization.

The transformation process--the passing away of the old and the emergence of the new--brings with it many uncertainties.

The question arises: will this region, so rich in natural and human resources, successfully make the transition to free market democracy and become an area of development and an engine of growth for the world economy? Or will the difficult reforms, now being launched or implemented, fail due to lack of internal and external support, causing the region to slide into a vicious circle of economic regression and political instability, thus becoming a perpetual drain on the international community's resources?

Of course, the answer to this question depends mostly on ourselves and our own patience and resourcefulness. The reforms could not have taken

place without the wide popular support for the process in the respective countries, and it must be recognized that the path to economic improvement exacts a heavy social cost on the population: the risk of destabilization-- as a result of popular discontent or from powerful opposing interest groups--becomes much greater. In order to maintain stability in the period of transition, economic reforms must go hand in hand with political reforms.

We have enjoyed overwhelming political support from the international community for our reforms. Without this endorsement, proceeding on the path to a market-style economy would be impossible. This support helped tremendously in achieving acceptance for the reforms on the domestic front.

We note with gratitude the assistance and understanding provided to the countries of Central and Eastern Europe by the international community and the most helpful activities of the international financial organizations. But we are very sensitive to the fact that the IMF and the World Bank must not neglect their more traditional borrowing countries. We certainly hope that the Bank and the Fund will do everything in their powers to maintain the level of support to their regular clients and, at the same time, provide adequate support for the adjustment programs of Central and Eastern European states. Moreover, we look to the entire international community of nations for an increase in economic and political contacts, reintegrating the region into the post-Cold War, world order.

We welcome the association of the U.S.S.R. with the International Monetary Fund. We would be glad to see the U.S.S.R. and its former Republics that choose an independent path integrated as full-fledged members of the international financial organizations. The acceptance of this region's countries into the international financial community assures that the changes will not be reversed and solidifies the fragile stability in the region.

Portugal (Governor Beleza)

We warmly welcome the thrust of the recent and ongoing fundamental changes in Central and Eastern Europe, including, of course, the Soviet Union and its Republics. We especially welcome the soon-to-be members of the Bretton Woods institutions, Estonia, Latvia, and Lithuania, and the Special Association agreement between the Soviet Union and the IMF.

The Bretton Woods institutions have a fundamental role in aiding the adjustment of those countries, and we wholeheartedly support their role within a framework of a fair and equitable burden sharing and allocation of available resources.

South Africa (Governor Du Plessis)

As has become clear in the case of Eastern Europe (and this has been debated with regard to the Soviet Republics in the past days and applies to

many other countries as well), the question is not only what support should be given, but also when the support should be given. It can indeed come about too late. The mere embarkation on a course of economic restructuring leads to rising expectations that may thwart the whole process unless timely external support is forthcoming to facilitate the early achievement of at least some of the goals or fruits of restructuring. Both economic and political democratization could easily be placed in serious jeopardy if premature disillusion with the adjustment process is experienced and translated into political rejection.

Spain (Governor Solchaga)

I would like to begin by extending to the U.S.S.R. my warmest welcome to the Bretton Woods institutions. The Special Association agreement recently signed by the U.S.S.R. and the International Monetary Fund marks the beginning of a new era in international economic relations, thereby opening as well a new and exciting period for the multilateral institutions which have made a decisive contribution to the prosperity of their member countries over the past four decades by promoting the stability of the multilateral payments system....

In concluding, I will return to the topic of re-incorporation into the market economy of the U.S.S.R. and the countries of Eastern and Central Europe. The months that have elapsed since the transcendental political and economic changes began in some of them have convincingly demonstrated the enormous difficulties involved in moving from a planned economy to a market economy and from an authoritarian regime to a democratic and multiparty system.

We have also learned that the transition takes much more time than initially thought. This time factor may be the most important aspect in shaping the role that our multilateral institutions, and in particular the IMF and World Bank, are to play.

Sweden (Governor Dennis) 3/

I would also like to comment briefly on the transformation to market economies of the previously centrally planned economies. First, I welcome the recent agreement on Special Association between the Soviet Union and the Fund and the way that this most important issue has been handled by the Fund.

Let me then make the general observation that the most valuable contribution that we in the industrial countries can make to assist the economies in transition is to ensure that their exports have access to our markets.

With respect to the countries in Central and Eastern Europe, I find it very encouraging that the international community--with the Fund being one

of the front-runners--was able to react so swiftly to the economic and political changes by providing technical assistance as well as financial support. During the initial phase of the transformation process, it is understandable that exceptional official financial support is needed. Lending from the Fund has contributed significantly to this financial assistance. However, it must be emphasized that a continuation over the medium term of large-scale financial support from the Fund is not feasible. The high credibility of the Fund hinges on the revolving character of its resources. The main task of the Fund must be that of a catalyst for financing from other sources. The exceptional official financial support must be gradually replaced by financing from private sources.

An issue which is of general importance in this context, and which has particular significance for the assistance to Central and Eastern Europe, concerns the different roles of the multilateral financial institutions. The Nordic countries would like to reiterate that the role of the Fund is to assume the main responsibility, in close consultation with the recipient countries, for the design and monitoring of macroeconomic adjustment programs. As to the institutions that have primary responsibility for providing advice on structural reform, there seems to be a need for further clarification. It is vital that an agreement be quickly reached on their respective roles and on an appropriate division of labor.

Tonga (Governor Fakafanua)

Tonga strongly endorses the enhanced roles and responsibilities given to the World Bank and the Fund with respect to the historical changes now occurring at mind-dazzling speed in the economies of Eastern Europe and the U.S.S.R. That the two institutions were chosen to undertake these important tasks pays due tribute to their acknowledged skills and expertise.

United Kingdom (Governor Lamont)

In 1944, the Soviet Union sat down with the Western powers around the Bretton Woods Conference table to draft a new world economic order. Now, almost half a century later, the Soviet Union is ready at last to take its proper place in these international institutions. It was a tragedy for the Soviet people that they have had to wait for so long.

And so the attendance of Mr. Yavlinsky and his colleagues at our meetings this year is an event of historic importance. I have met Mr. Yavlinsky on a number of occasions this year in London and Moscow. I pay tribute to his tenacious espousal of economic reform.

What the IMF, the World Bank, and we finance ministers have to say on the Soviet Union should be regarded as the advice of friends. It is, of course, for the Soviets themselves to decide on their economic future. Only they can take the decisions on reform. Only they can carry them through.

The macroeconomic situation in the Soviet Union today is little short of disastrous. Fundamental reforms are needed--and needed now. Budget deficits, financed by money creation, are spiraling out of control at both Union and Republic levels. There is a real risk of hyperinflation. It would be difficult to imagine a more difficult background against which to implement far-reaching structural reform.

None of these problems can be solved by large-scale financial assistance from abroad. Such a "solution" would be unrelated to the problem. A drastic tightening of fiscal and monetary policy is what is necessary: public expenditure must be cut, taxation raised, and positive real interest rates established. As countries right across the globe have learned, there is no comfortable cure for hyperinflation. But, no matter how painful the cure, it is more comfortable than the disease....

As fundamental economic reforms are enacted by the Soviet authorities, we will, as now, help with technical assistance. Possible further measures of financial assistance will depend on developments in the Soviet Union. If comprehensive reforms are enacted and the need for additional finance is clearly demonstrated, we will stand ready to help.

This week we have had a series of intensive discussions with the Soviet delegation. The process of dialogue and information gathering is slow and painstaking. It does not produce many dramatic moments; it does not produce enough headlines for the newspapers; there are few discrete milestones along the way. But the process itself is historic. The Soviet team is producing information on its financial affairs and gold holdings that only a short while ago were closely guarded state secrets--information that could not have been given to the West--or indeed to anyone outside a tiny circle in the Soviet Union--without incurring severe penalties.

Slowly but surely we are putting together the necessary information on the Soviet economy, and in particular its external finances and overseas indebtedness. We will continue to build up our cooperation with the Soviet authorities at all levels as they strive to establish prosperous market economies.

For this will give an immense boost to economic development and prosperity worldwide. And that is why the IMF and the World Bank must continue to play their role. Everyone will benefit if this enterprise succeeds. We cannot let it fail.

United States (Governor Brady)

In Eastern Europe, the IMF and the World Bank have been at the forefront of efforts to promote free markets and democracy. With IMF and World Bank assistance, these countries are implementing programs or reform and stabilization. IMF financial commitments to Bulgaria, Czechoslovakia, Hungary, Poland, and Romania in 1991 total \$8 billion. World Bank

commitments to Eastern Europe for fiscal year 1991 reached over \$2.6 billion.

The IMF and the World Bank have established a special association with the Soviet Union to help that country address the pressing problems of comprehensive reform. We welcome this special association and urge that no effort be spared to work intensively in the days ahead. Like others, we believe special association will help clear the way for full Soviet membership in both institutions.

In the Soviet Union and Eastern Europe, we are confronted with the most radical economic change in the post-war period. The search for new values has its costs. These countries have made a conscious decision to switch rapidly from one political and economic system to another. They are literally rewriting all the rules. My visit to the Soviet Union last month brought to mind the Colonial American experience of making a fresh start and creating a new form of government. Over two hundred years ago, the United States began its efforts to create stable institutions--a process which took decades to complete. Yet the Soviet Union is trying to accomplish a similar task in only a matter of months.

The international financial institutions will have a special role in assisting this transformation. In defining this role, we must understand what transforming countries need. There is no question that part of what they need is provided by the traditional IMF-World Bank approach: advice on formulating comprehensive economic policy programs and the financial assistance to support those programs. But they also need more fundamental assistance that goes well beyond standard adjustment programs.

Let me list the tasks:

- (1) Attitudes toward the creation of wealth need to be changed to release the dynamism of the private sector. Free enterprise and entrepreneurship means that businesses and individuals are free to succeed. State orders are no substitute for individual initiative.
- (2) Countries need help in building basic private and government economic institutions, such as the development of capital markets and banking and reserve systems.
- (3) They need basic training on how to run profitable private businesses, which involve the special professions of cost accounting, contract negotiations, distribution, and marketing.
- (4) They need practical advice on the operation of a sound fiscal system: a tax code and collection system, a public sector budget mechanism, a customs operation for the borders, and a data collection system.

- (5) And last but not least, they need assistance on how to establish a workable legal system for private enterprise, including an enforceable contract system.

These are the basic underpinnings of a successful market economy. We will be up to the task only if the World Bank and the IMF build on this institutional framework, as well as instituting macroeconomic policy reform. To do this, the Bretton Woods institutions need to develop a partnership with the private sector to elicit their expertise in helping countries build solid foundations for market economies.

To provide assistance in all of these areas, the IMF and the World Bank will need to develop new modes of operation. Brief mission visits to negotiate adjustment programs with central governments will not be enough.

The IMF and the World Bank will have to pay much greater attention to the human capital component of their programs. They will have to put people in-country for extended periods of time. They will have to draw on experts from national governments, business, banking, law, and universities.

The Fund and the Bank will also have to expand in-country contacts to all levels of government. This assistance cannot be provided by dealing with central governments only. Fund and Bank staff will have to advise and educate individuals in the private sector and in local government.

Some have legitimately raised the question of whether this emphasis on the Eastern European countries and the Soviet Union will result in a diminution of resources to traditional recipients. Both the World Bank and the IMF are well capitalized, and I see no reason why there should be any shortfall in financial flows. Resources will be adequate to the task.

Others have asked whether there will be any reduction of IMF and World Bank technical expertise available to traditional recipients due to a concentration of attention on Soviet and Eastern European problems. Legitimate traditional priorities should not be weakened. In addition, the gains for world stability should be well worth the price for countries large and small.

2. Surveillance, Exchange Rates, and Current Account Balances (Including Shortage of World Savings)

Belgium (Governor Maystadt)

The medium-term outlook continues to be dominated by the debate on world savings. The exchange of views which we had in the Interim Committee has enabled us to better identify the problem, but it must continue. Personally, I hope that at one of our upcoming meetings we can develop an overview of this issue from an analysis of all the international

institutions involved in these problems. However, we should not wait for the results of this analysis to implement the economic solutions which are likely to be required, specifically those designed to improve the allocation of available resources worldwide. Let me make the following suggestions regarding the savings that could be achieved in this area.

The first source of savings, both obvious and difficult to achieve, is the elimination of protectionism in world trade. I congratulate the Fund staff for having made this an essential issue in their latest analyses of world economic prospects by putting their finger on the important contribution that the elimination of protectionist measures could make to restoring equilibrium to world savings. As Governors, responsible for achieving the objectives of our institutions, we cannot ignore the enormous stakes involved in completing the negotiations on the Uruguay Round.

Because of the economic distortions that it preserves, protectionism leads to suboptimal commercial exchanges just at the time when new countries are seeking to participate in world trade.

Furthermore, it confronts the IMF with the risk of having to provide balance of payments assistance to cover deficits which ought normally to be absorbed by freer access to world markets. This situation is all the more worrisome in that it is contrary to the statutory objectives of the IMF's financial operations.

In order to highlight the negative effects of protectionism in this area, I would invite the Fund staff to make a more systematic estimate of the additional resources that the institution is required to mobilize in the context of stabilization programs which suffer from the start from serious trade constraints.

A second area, also sensitive but equally important, is that of military expenditure. I would like to pay tribute to Mr. Barber Conable for having been the first person to criticize in public at these meetings the tremendous waste of resources that military expenditure represents, particularly for developing countries which have such a need for capital to accelerate their economic and social progress. All too often military expenditure contributes to budget problems, is favored over the financing of development priorities and, last, serves to protect the interests of a minority, to the detriment of the majority of the population.

If more complete information on arms budgets were available to the Bank and the Fund this would certainly be a considerable step forward. Nonetheless, in my view an improved statistical instrument should be only a first step: ideally, it should lead the Bank and the Fund to take a position regarding excessive military expenditures when they impede a country's development.

In my view, this kind of assessment by our institutions would be difficult to object to, since it would be part of the overall judgments that they must make regarding the proper allocation of the resources available to member states to achieve their economic objectives. This function would also have to be set in the current world context: the Bank and the Fund will increasingly be required to implement fundamental restructuring programs in countries and regions which in the past have seen numerous conflicts and escalating military expenditure. It would seem logical to me that reform programs in these countries should henceforward be partly financed by mobilizing the resources which up to now have been earmarked for military purposes.

The "conditionality" inherent in this approach could be based on the proposal from the "Independent Group on Financial Flows to Developing Countries" chaired by Helmut Schmidt. This group suggests that countries that spend less than 2 percent of their GNP on their security (in 1988 the military expenditure of the developing countries was 4.7 percent of GNP!) should be given special treatment in the provision of international assistance. Even if the application of this formula caused occasional difficulties, it would be a powerful incentive to reducing the waste of resources resulting from excessive armaments purchases by poor countries.

For the industrial countries supplying these weapons--and Belgium is one of them--it should be clear that the desire of the Bretton Woods institutions to reduce military expenditure ought to lead to a reduction in arms production, which consequently should induce them to plan for the conversion of the industries involved.

As my third and final suggestion for improving the allocation of world savings, I would recall that two years ago I told you of my desire to see the introduction of a minimum degree of harmonization of the tax treatment of earnings on savings. Apart from its budgetary effects, the competitive tax reduction now taking place has the inevitable consequence that the allocation of the most mobile factors of production--particularly financial savings--is increasingly affected by tax considerations. In the absence of this minimum degree of harmonization, there is no guarantee that the deregulation of capital movements will produce an optimal allocation of world savings. This issue is currently being studied by various international organizations. Given its international adjustment responsibilities, the IMF should participate actively in analyzing this issue.

Islamic Republic of Iran (Governor Noorbakhsh)

International monetary and financial tensions in recent years clearly indicate that real stability in these areas would only be achieved through the introduction of an international pool of savings. The IMF Articles of Agreement stresses the SDR as the principal international pool; nevertheless, the share of SDRs in international savings has declined.

Japan (Governor Mieno)

Also essential for the steady development of the world economy will be the stabilization of the relationship between the currencies of Japan, the United States, and the European Community. It is commendable that close cooperation among the major industrial countries in the exchange markets has made significant contribution to the stabilization of currency movements....

Nevertheless, Japan, while running a surplus on its current account, is making ongoing efforts to improve access to its markets and is giving its fullest consideration to providing development funds to developing countries.

I would next like to turn to the global capital shortage issue.

Developing countries still need large sums of funds for development purposes, and moreover, there is additional demand for financial resources now expected from the unification of Germany, economic reforms in former centrally planned economies, and postwar reconstruction in the Gulf. But while the demand for investment is high around the world, global savings growth is stagnant.

The international supply and demand for funds is thus becoming tighter, and we need to enhance savings around the world. First and foremost, we urge that countries with budget deficits, especially some of the major industrial countries, make every effort to cut their deficits, as this is one policy that can be adopted by governments individually.

Furthermore, we need to recognize the importance of providing sufficient funds for tangible investments that will help the real economy to grow in the future. To this end, all countries in the world will need to hold down nonproductive public expenditure, especially excessive military spending, and make more of an effort to spend public money on increasing productivity and welfare.

Due to the global capital shortage, the World Bank and the IMF, which supply member countries with needed funds, will take on an increasingly important role. We should also note that their funds work as a catalyst for other funds from those able to provide it, while inducing the improvement of the economic fundamentals of the recipient countries over the middle and long term.

Malta (Governor Bonello Du Puis)

A more favorable international climate is essential if countries at a less advanced stage of development are to be in a position to introduce the necessary market-oriented reforms. This can only come about if industrial countries enhance the economic policy coordination process in a way that promotes global sustainable growth. In this regard the Fund's role in

overseeing macroeconomic policies should be made more effective, possibly by ensuring that Fund analyses of economic policies and performance in Group of Seven countries highlight more forcefully the impact of such policies on the rest of the world. The Fund may then be in a stronger position to exert persuasive pressure on the individual countries concerned to ensure that these implement corrective measures in the interests of the international community.

Netherlands (Governor Kok) 2/

The EC countries attach great importance to a more stable international monetary system; in a world with highly integrated capital markets, exchange rate stability can only be achieved through stability-oriented domestic policies and further improvement of the economic coordination process. The IMF should continue to support this coordination process actively and to address this topic in its surveillance of the international monetary system and of the policies of individual members. All countries, large and small, should pay heed to the Fund's recommendations; to do so is also in their own interest.

New Zealand (Governor Kidd)

The gains from trade liberalization would make a significant contribution to reducing the shortage in world savings. Those gains could well have a bigger and certainly a more immediate impact than the prospective peace dividend.

Republic of Korea (Governor Rhee)

The task remains for the Bank to promote the efficient allocation of limited resources by cooperating closely with the various development institutions, while the Fund should enhance the effectiveness of its policy recommendations to developed countries by strengthening its surveillance and coordination functions.

Sweden (Governor Dennis) 3/

It follows from what I have said that the so-called shortage of savings is a problem of the real economy and should be treated as such and not as a financial one. Available global liquidity does not seem to be insufficient.

3. Fund Facilities and Access to Fund Resources

Antigua and Barbuda (Governor Joseph) 4/

In the countries for which I speak today, negative net transfer of resources to the Bank and the Fund over the past seven years is estimated at about \$1 billion. These negative transfers result not only from the

borrowing cycle but also from the nature of the adjustment programs themselves. The premise on which the borrowing took place is that countries would have grown at a fast enough pace to repay the institutions without undue difficulty. However, such levels of growth have not taken place and are unlikely to do so in the near future. The risk of a further intensification of poverty in these countries is therefore quite high.

The responses of the institutions to these developments are often contradictory at both the regional and global levels. Rules of access to the resources of the Bank and the Fund are constrained precisely at the time when the countries need those resources most.

Fiji (Governor Kamikamica)

These issues have implications for the developing countries, an increasing number of which are undertaking structural and economic reforms. There have been encouraging signs that these reforms are beginning to show benefits in developing countries, and it is expected that these initiatives will continue to be supported by the Fund and the Bank. Developing countries must be assured that the increased demands on resources would not be met by a squeeze on their requirements. Greater emphasis should also be placed on flexibility and speedy response to the changing and divergent needs of developing countries.

France (Governor de Larosiere)

In parallel with bilateral donors, and with their support, international institutions should also contribute to increasing the volume and reducing the cost of financing to the poorest and the most indebted countries.

Malta (Governor Bonello Du Puis)

We note with satisfaction the Fund's decision late last year to widen the scope for use of the compensatory and contingency financing facility (CCFF) by the inclusion of an oil import element. While the decision was taken in response to the Gulf crisis, there is certainly a case for maintaining coverage of this element into the future, given the destabilizing impact that a sudden surge in oil prices can have on the balance of payments of fuel-importing developing countries.

Nepal (Governor Acharya)

Nepal has implemented the structural adjustment program with Bank-Fund support. The encouraging outcome of the program and the present economic situation call for the continuation of the adjustment efforts. However, it is our experience that the balance of payments support under the structural adjustment loan of the World Bank, and the structural adjustment facility of

the International Monetary Fund, need to be tailored to our specific situation and should be more flexible in their conditionalities.

Pakistan (Governor Aziz)

Third, the Ninth General Review must be completed at an early date to increase existing quotas by 50 percent. There is justification for maintaining the enlarged access policy even after this increase, and the case for a large SDR allocation must be reopened, as Mr. Camdessus emphasized yesterday.

Fourth, the international financial institutions need to review their policies and mechanisms to provide enhanced support to social sectors and to infrastructure activities in the private sector. Simultaneously, the response time of these institutions must be shortened. Demand for upfront adjustments by countries facing unpredictable exigencies needs to be reviewed so that relief is provided on a timely basis in crisis situations.

South Africa (Governor Du Plessis)

As has become clear in the case of Eastern Europe (and this has been debated with regard to the Soviet Republics in the past days and applies to many other countries as well), the question is not only what support should be given, but also when the support should be given. It can indeed come about too late. The mere embarkation on a course of economic restructuring leads to rising expectations that may thwart the whole process unless timely external support is forthcoming to facilitate the early achievement of at least some of the goals or fruits of restructuring. Both economic and political democratization could easily be placed in serious jeopardy if premature disillusion with the adjustment process is experienced and translated into political rejection.

Taking account of both the complexity and the comprehensive nature of economic restructuring programs, developing countries need the support of the international community and, in particular, of multilateral institutions such as the International Monetary Fund and the World Bank Group in the implementation of such programs. South Africa therefore supports efforts within these institutions to provide maximum assistance to members in this regard.

Tanzania (Governor Ribona) 5/

Substantial resource flows from the international community are needed for Africa to break away from the low savings-investment trap. The Fund and the Bank have important roles to play in this regard. We should begin to think now about extending and expanding the Fund's enhanced structural adjustment facility (ESAF), given its compatibility with the economic profile of a large number of member countries. The Fund could also help ease the financial constraint in developing countries by reaching an early

decision on SDR allocations and by linking such allocations to the needs of developing countries.

United States (Governor Brady)

In the poorest countries, including those of sub-Saharan Africa, the IMF and the World Bank are providing concessional resources to promote sustained growth and the alleviation of poverty. Some of these countries have turned the corner. Their example confirms that market-oriented reform is possible and beneficial at all stages of development. For our part, over the past year the United States has forgiven \$2.3 billion in bilateral concessional debt owed by these countries. We also support an expansion of the list of countries eligible for the enhanced structural adjustment facility (ESAF) in order to increase the Fund's capacity to support low-income countries.

Yugoslavia (Governor Vlatkovic)

Therefore, I believe that, at this time of turbulent economic and political changes, the international community--the Bank and the Fund in the first place--will have to earmark the available funds with utmost selectivity, but do so faster and more determinedly and thus ensure that the initiated reform process is not slowed down or halted. This will perhaps mean a deviation from the prevailing policies and practices of the two institutions and may even entail certain higher risks, but this seems to be inevitable in the present circumstances.

4. Quotas and the Third Amendment

Bangladesh (Governor Rahman)

It is here I would strongly emphasize the need for the Tenth IDA Replenishment and the IMF quota increase for resource augmentation to meet the enlarged resource needs of the developing world.

Belgium (Governor Maystadt)

An absolutely essential condition for preparing our institutions for the new challenges is the rapid implementation of the Ninth General Review of Quotas of the IMF. We would be risking a serious disruption of the international adjustment process if the Fund did not have the resources it needs to perform its key monetary role....

Belgium has approved the resolution on the quota increase and the resolution on the Third Amendment to the Fund Articles. Our position regarding the urgency of these decisions is a firm one: we believe that absolute priority must be given to the rapid implementation of these resolutions in order to give the Fund the resources it needs to achieve its

statutory objectives and its new tasks. A year and a half ago in the Interim Committee we reached a difficult but, in my view, realistic compromise regarding the joint implementation of these two resolutions. We must not allow this compromise to be jeopardized by ratification delays in certain countries or by the fact that others might approve only one component of the decision. The urgency seems to me all the more obvious in that the Fund must now operate in an entirely new world environment. Even if these developments do not require an immediate strengthening of the Fund's resources, it would appear prudent for us at least to have an in-depth exchange of views on their implications for the future role of the IMF. This cannot be done calmly until the ratifications of the Ninth General Review of Quotas are behind us.

Let me recall at this point that, at my request, a clause was inserted in the Interim Committee communiqué of April 1990, providing for consultation on measures to be taken if the increase in Fund resources had not occurred before the end of this year. We must take all the necessary measures to protect the monetary character of the IMF in light of the new worldwide challenges. It is not sufficient merely to maintain adequate liquidity, which according to the latest calculations will be the case, at least in the short term. Much more vital, in my opinion, is the need for the Fund to be able at any moment to inspire confidence in the functioning of the system. This is the duty of every monetary organization. As you are aware, Belgium has for several years made proposals for an SDR allocation to complement and strengthen the effect of the increase in quotas.

Chile (Governor Larre) 1/

On the subject of quotas, we wish to emphasize the advisability of promptly approving and rapidly implementing the increase in quotas under the Ninth General Review, to better meet the financial requirements of a growing number of member countries. It is also important to ensure regional representation, which could be affected by the adherence of new countries and by the potential activation and application of the Third Amendment to some Latin American countries.

China (Governor Li)

In light of the increasing role of the Fund in the debt strategy and mounting demand for Fund resources by the developing members in pursuit of adjustment, we endorse the increase in quotas as a result of the Ninth General Review. We note with concern, however, the continuing decline in the share of the developing countries as a group in the overall quotas of the Fund. Against this background, we call on the Fund to try every means to avoid a further decline in the developing countries' share in the coming Tenth General Review of Quotas.

Fiji (Governor Kamikamica)

There will be a significant increase in the demands on Bank and Fund resources. It is therefore of concern that the increase in quotas under the Ninth General Review has not yet been implemented. In common with many countries, Fiji has already given its consent, and it is to be hoped that those other countries will follow suit, so that the increase in quotas can be implemented as soon as possible.

France (Governor de Larosiere)

However, our institutions need resources. It is crucial that the Fund's Ninth Review of Quotas enter into force as envisaged. We also attach the highest importance to the study requested by the Interim Committee at its spring meeting on the opportunity and potential modalities for a future SDR allocation. In fact, we can already perceive in certain regions of the world the negative effects which could stem from a shortage of reserves, particularly for those countries that have recently decided to make their currencies externally convertible.

Germany (Governor Waigel)

The responsibility of the IMF and the World Bank toward the developing countries that seek to cooperate with them remains undiminished. To ensure that the IMF can remain equipped with the financial resources required to effectively help its members, the quota increase and the amendment to the Articles of Agreement must be put into effect without delay. Germany has consented to both the quota increase and the amendment.

Ireland (Governor O'Connell)

The International Monetary Fund and the World Bank are central to the efforts of the world community to achieve greater growth and development on a coordinated basis. These two institutions provide a forum in which the concerns of all countries can be voiced. They are a powerful force and a powerful influence, and programs supported by them are an essential element in achieving improvements in the world economy. They have demonstrated repeatedly their ability to respond quickly and effectively to difficult situations. Ultimately, however, they can only be as strong as the commitment of the member nations. I would like to pay tribute to their sense of professionalism in the exercise of their responsibilities. We, as Governors, have a duty to ensure that they have adequate resources and proper authority to continue their good work effectively.

Italy (Governor Carli)

At a time when unprecedented forces tend to divide peoples, breaking pre-existing regional orders and creating new extraordinary needs, it is essential to reassure the developing world that this will not bring neglect

or lower the commitment of industrial nations. Today, there is even greater scope than in the past for strengthening the leading role of the IMF and the World Bank by increasing their resources; this is in recognition that these institutions, together with the newborn European Bank for Reconstruction and Development, are the place where all nations can formulate common economic strategies for the pursuit of the world's welfare.

Japan (Governor Mieno)

If the IMF is to do an adequate job in the tasks that have been placed before it, it will need to strengthen its financial resources. It is, therefore, urgent that the Ninth Quota Increase be implemented promptly as scheduled. Unfortunately, the progress being made by member countries in complying with their domestic procedures, seems to be much slower than originally expected. I would exhort those members who have not yet consented to the quota increase or accepted the Amendment to the Articles of Agreement to complete their domestic procedures as promptly as possible.

Kuwait (Governor Al-Sabah)

Additionally, the Government of Kuwait is supporting the IMF Ninth General Review of Quotas.

Malta (Governor Bonello Du Puis)

Since a global shortage of capital implies that the rising demand on world savings will have to be met predominantly by official financing, it is imperative that the resources of the international financial institutions are augmented as soon as possible. Here it is preoccupying to observe that while approval for the IFC capital increase is expected to proceed smoothly, the procedures to make the Fund's Ninth General Review of Quotas effective by the end of this year still have not been completed by the necessary number of member countries. I am glad to say that my country has consented to the increase in its quota and has accepted the Third Amendment of the Articles of Agreement in accordance with its law.

Netherlands (Governor Kok) 2/

The Bretton Woods institutions will only be able to play their invaluable part in helping to redress balance of payments deficits if provided with the necessary means. All members are urged to ensure that both the pending quota increase and the Third Amendment to the Articles of Agreement of the IMF are made effective as early as possible. In doing so, we should avail ourselves of the opportunity to end the Fund's borrowing.

Pakistan (Governor Aziz)

Third, the Ninth General Review must be completed at an early date to increase existing quotas by 50 percent.

Paraguay (Governor Otazu Gimenez)

According to what has been said so far, we note a general view, also held in Paraguay, that the IMF should be given sufficient resources to meet its basic function of supporting adjustment programs and structural reforms that will improve the economic and social development of our countries. In that sense, the Fund should be strengthened institutionally and financially. Hence, it is with great pleasure that I announce that the Government of Paraguay has approved the Third Amendment of the Articles of Agreement and has authorized the increase of our quota according to the Ninth replenishment of resources.

Spain (Governor Solchaga)

For the Bretton Woods institutions to be truly effective in each and every area entrusted to them, we, their shareholders, must also be prepared to make the necessary changes dictated by the new international context. In particular, two areas are now no less than urgent: strengthening of the linkages between our institutions and GATT and a significant increase in the IMF's own financial resources....

Moreover, the Bretton Woods institutions cannot play the role incumbent upon them unless they have sufficient funding. Payments must be made as soon as possible under the IMF's Ninth Quota Review, although it may already be insufficient, and we may have to begin thinking about a tenth review. Let us hope that by then we can once again make the quotas serve their original purpose as a source of all rights and obligations, leading to a rapid closure of the negotiations, the ultimate goal of which should be a marked improvement in the financial soundness of the institutions on which much of the stability of the international economy rests.

Sweden (Governor Dennis) 3/

Let me finally address the question of the Fund's resources. The increases in quotas as resolved in the Ninth Quota Review are, in the view of the Nordic countries, to be regarded as the minimum required for the Fund in the coming years. Consequently, it is imperative that the acceptance of the quota increase--as well as the Third Amendment of the Fund's Articles of Agreement--be swiftly concluded by members.

We have a fundamental obligation to safeguard the necessary level of resources for the Fund. Only then can the institution promote stability and order in international monetary and financial relations to the benefit of all its members.

Thailand (Governor Singhasaneh)

During the past year, the Middle East crisis, the economic restructuring of the countries in Eastern Europe, and the lingering effects

of the debt crisis of the 1980s have pushed demand for financial assistance from the World Bank and the International Monetary Fund to a record level. And the outlook for the medium term is a continuation of that trend. This, I believe, underscores the importance of bringing the pending increase in quotas under the Ninth General Review into effect as soon as possible, so that the Fund will have the financial resources necessary to meet these urgent demands.

However, we find it most regrettable that the members' quota increases under the review will be effective only after the proposed Third Amendment of the Fund's Articles of Agreement comes into effect. This should not be allowed to become a precedent for future quota increases. We urge the Fund's Executive Board to start work on the Tenth Review early enough to avoid another delay.

United Kingdom (Governor Lamont)

The recent increase in the number of Fund members and the membership applications still under discussion have significantly increased the reach and influence of the Bretton Woods institutions across the world. And they also underline the need for all existing members to ratify soon the Third Amendment to the Fund's Articles and the Ninth Review of Quotas.

United States (Governor Brady)

The expanding financial needs in debtor countries, Eastern Europe, and the poorest countries necessitate that the international financial institutions have ample resources. To this end, the United States strongly supports the IMF quota increase to meet its global financial responsibilities.

5. Overdue Financial Obligations

Chile (Governor Larre) 1/

It bears noting, finally, that the cooperative strategy for the settlement of arrears adopted in 1989 has been put to the test in the case of Peru and that it is therefore crucial for both Peru and the International Monetary Fund that this agreement be fully successful.

Indeed, it would be no exaggeration to maintain that had Peru's attempt to normalize its relations with the Fund and the international financial community not succeeded, it would not only have called into question the Fund's credibility as an institution catalyzing adjustment finance, but would also have undermined the strategy aimed at preserving its financial integrity as a privileged creditor of the system.

It is obvious that Peru is the only one of the four main countries with arrears that is in full compliance with the basic conditions laid down by the Fund to serve as proof of cooperation with the organization, namely: (a) to freeze the amount of arrears at a given date and strictly comply with new payment maturities and (b) to apply an economic policy consistent with the principles recommended by the Fund. The approval of Peru's rights accumulation program on September 12, 1991, has thus made it possible to keep in operation the cooperative strategy aimed at preserving the privileged creditor status both of the International Monetary Fund and of other international credit organizations.

China (Governor Li)

With regard to the arrears in financial obligations of members of the Bretton Woods institutions, we consistently maintain that members in arrears should not be compelled to repay the debt. Punitive measures should not be the means by which the Fund deals with members in arrears. The underlying approach in order to fundamentally solve the arrears problem would be to assist the members in question to achieve long-term economic growth.

Netherlands (Governor Kok) 2/

Arrears to international financial institutions and notably the Bretton Woods institutions still continue to require special attention; they intensify the financing problems of the countries in arrears, both during and after the default period, but they also jeopardize the support of these institutions to other countries with external financing problems.

With the rights approach and the Shadow Adjustment Program, both the Fund and the World Bank have reached out to their members in arrears. A way out of the problems is mapped out, albeit along an inevitably difficult route. Some members have readily accepted this offer, and we urge others to follow suit with the support of donor countries. Only then can they become eligible again for the vital assistance of the IMF and the World Bank.

Sweden (Governor Dennis) 3/

It is a matter of great concern that the volume of arrears to the Fund remains so large. In this context, I want to express my strong support for the arrears strategy adopted by the Fund. It has encouraged countries with overdue obligations to cooperate with the Fund to solve their problems. However, it is of utmost importance that the strategy be strictly followed. If we allow exceptions, we will send wrong signals, both to countries already cooperating with the Fund and to potentially cooperating countries. I would also like to emphasize that it must be clear to everyone, including other international organizations, that rescheduling or writing off Fund claims is not a viable option. A strict adherence to the strategy by countries in arrears must, in my opinion, be complemented by a strengthening of the efforts by donor countries to make timely disbursements of already

committed resources. If not, I fear that we put the strategy at risk, with serious repercussions both for member countries trying to cooperate with the Fund and for the Fund itself.

As to noncooperating countries, I believe that the time has come to start implementing decisively the sanctions that are available to us. This will include the suspension of voting and related rights agreed upon in connection with the proposed amendment of the Fund's Articles of Agreement, as soon as it has been adopted by the necessary majority of member countries. It is equally important that countries that are prepared to cooperate with the Fund get the assistance they deserve. I am indeed concerned that this is not always the case. The principle of equal treatment of all Fund members must be respected in order to maintain the credibility of the organization.

Viet Nam (Governor Cao Si Kiem)

What needs to be stressed here is that, despite limited export earnings and ever-increasing import needs, we have made efforts to earmark part of our small foreign exchange for servicing our debt to external creditors. In particular, to multilateral institutions, such as the Bank and the Fund.

For the Fund, we have fulfilled our financial obligations falling due, totaling SDR 22 million during the past 12 months; these payments represent a considerable proportion of our debt servicing to the external creditors, while the relationship between Viet Nam and the Fund has not yet been normalized as envisaged by the intensified collaborative approach initiated by the Fund itself.

6. The SDR and the International Monetary System

Belgium (Governor Maystadt)

Let me recall at this point that, at my request, a clause was inserted in the Interim Committee communiqué of April 1990, providing for consultation on measures to be taken if the increase in Fund resources had not occurred before the end of this year. We must take all the necessary measures to protect the monetary character of the IMF in light of the new worldwide challenges. It is not sufficient merely to maintain adequate liquidity, which according to the latest calculations will be the case, at least in the short term. Much more vital, in my opinion, is the need for the Fund to be able at any moment to inspire confidence in the functioning of the system. This is the duty of every monetary organization. As you are aware, Belgium has for several years made proposals for an SDR allocation to complement and strengthen the effect of the increase in quotas.

Chile (Governor Larre) 1/

We wish to note also that, taking into account the adjustment programs now being implemented, we believe that the SDR should have greater relative importance in the reserve assets of the system. Accordingly, we support a new, unconditional, and sizable SDR allocation and urge those industrial countries that have yet to voice their support for this initiative to reconsider their positions, thereby making it possible to seek alternatives under which most of that allocation would be available to developing countries.

Fiji (Governor Kamikamica)

I would also encourage the Fund to continue its efforts to obtain the necessary support for a third SDR allocation.

France (Governor de Larosiere)

However, our institutions need resources. It is crucial that the Fund's Ninth Review of Quotas enter into force as envisaged. We also attach the highest importance to the study requested by the Interim Committee at its spring meeting on the opportunity and potential modalities for a future SDR allocation. In fact, we can already perceive in certain regions of the world the negative effects which could stem from a shortage of reserves, particularly for those countries that have recently decided to make their currencies externally convertible.

Islamic Republic of Iran (Governor Noorbakhsh)

International monetary and financial tensions in recent years clearly indicate that real stability in these areas would only be achieved through the introduction of an international pool of savings. The IMF Articles of Agreement stresses the SDR as the principal international pool; nevertheless, the share of SDRs in international savings has declined. As a component of foreign exchange reserves for some countries, the SDR can play an important role in coping with unexpected events and prevent slowdown of international trade.

It is unfortunate that an agreement was not reached on an SDR allocation in the fifth and sixth sessions. We recommend that such an agreement be reached during the seventh session. This measure will stimulate reserves in various countries and assist them in their economic adjustment efforts.

Italy (Governor Carli)

This last year has revealed more clearly than any other time in the past the unprecedented scale of the financial efforts required from the industrial nations for the next decade. It has also revealed, in a world

where few countries' current accounts and budgets are in surplus, the difficulty of undertaking these efforts. We believe that the time to think again of an increase in international liquidity through an SDR allocation has come. We also believe that this can be done in a noninflationary fashion, and we suggest that it should be studied anew by the IMF.

Japan (Governor Mieno)

In the IMF Interim Committee last April, we proposed a new allocation of SDRs and the use of allocated SDRs with a view to supplying the global economy with appropriate liquidity. We expect and hope that the IMF Board of Executive Directors will continue to consider this proposal and other issues related to global liquidity and the flow of funds.

Malta (Governor Bonello Du Puis)

At a time when the liquidity problems of the developing countries have become more acute, my country also feels that a fresh allocation of SDRs is warranted, particularly if it is accompanied by a redistribution linked to development needs. A fresh allocation is sure to contribute to a strengthening of the SDR's role as an international reserve asset.

Pakistan (Governor Aziz)

Third, the Ninth General Review must be completed at an early date to increase existing quotas by 50 percent. There is justification for maintaining the enlarged access policy even after this increase, and the case for a large SDR allocation must be reopened, as Mr. Camdessus emphasized yesterday.

Tanzania (Governor Kibona) 5/

Substantial resource flows from the international community are needed for Africa to break away from the low savings-investment trap. The Fund and the Bank have important roles to play in this regard. We should begin to think now about extending and expanding the Fund's enhanced structural adjustment facility (ESAF), given its compatibility with the economic profile of a large number of member countries. The Fund could also help ease the financial constraint in developing countries by reaching an early decision on SDR allocations and by linking such allocations to the needs of developing countries.

7. Debt Strategy

Antigua and Barbuda (Governor Joseph) 4/

We are also concerned that not enough consideration has been given to the reduction of multilateral debt. We suggest two approaches that can be

taken. The first lies in an effort to reduce the interest costs of borrowing. If an overall interest rate reduction is not considered appropriate, an interest rate reduction can be targeted to special cases. The second approach is to increase access to funds to develop human resources and modernize sectoral activity to make the countries more competitive and more receptive to foreign and domestic investment. We are willing to make the necessary economic adjustments; we ask only for speedy and resolute reciprocity on the part of the multilateral institutions.

Belgium (Governor Maystadt)

The strengthened debt strategy has enabled substantial progress to be made. The silent revolution referred to by the Managing Director of the Fund in his speech last year has continued in a number of countries and has enabled some of them to return to the private capital markets. However, new challenges are on the horizon. Certain indebted countries have benefited from special relief from their public creditors. The capacity for action displayed by the international community in such cases is entirely praiseworthy, but these decisions should be based on objective criteria and not merely on political considerations.

This special relief should in the first place observe strict complementarity between the scope of the respective financial and adjustment efforts, so as not to discourage other countries that are making considerable efforts, often painful for their populations, to service their debt. To avoid such "moral hazard," the Bank and the Fund could examine the possibilities of temporarily increasing their financial assistance to these countries until such time as the commercial banks realize that a modest expansion of their lending to this category of debtors does not constitute an excessive risk.

In addition, the industrial countries should examine whether the prudential rules introduced under the aegis of the Bank for International Settlements should be amended to prevent them from unduly discouraging the commercial banks from lending to this category of debtor. More specifically, the ratios imposed on the banks could take account of the performance of the debtor states in implementing stabilization and adjustment programs financed by the Bretton Woods institutions.

The special decisions to which I have just referred have often been prepared at ad hoc meetings bringing together various configurations of creditor countries. There are risks in this approach insofar as it may lead to diverging views on burden sharing among creditors and eventually to inequitable solutions. This risk will grow if the international community is faced by much larger financial needs than has been the case so far. I therefore urge a return to the decision and burden-sharing formulae of the Bretton Woods institutions, that is, formulae based on a global assessment of the repercussions of the decisions reached, and derived from the objective and stable criteria on which the financial participation of these

financial institutions depends. Insofar as the needs in question exceed the normal intervention capacity of our institutions, I propose that this issue be examined in the Group of Ten, given the mandate of that organization to assist the IMF to tackle situations of a systemic nature.

The key role which I wish to preserve for the Bank and the Fund in the debt strategy is also justified by the need to ensure the universal application of the solutions which we may approve in exceptional cases. On this point I regret that the debt reduction recently agreed for Poland and Egypt has not led to a formal consensus among the major industrial countries on the utilization of these decisions as a new minimum benchmark for future debt relief to low-income countries. I regard this as deeply unjust and consequently cannot accept that what was agreed for Poland and Egypt should not also apply to the poorest countries in Africa. An objective and nondiscriminatory application of the debt strategy would entail formal acceptance of the principle of a reduction of at least 50 percent in the debt stock of all low-income countries that are implementing fundamental structural adjustment programs. I hope that this anomaly will be corrected as soon as possible within the Paris Club.

Canada (Governor Smee)

We must continue to tackle the persistent problem of international debt. The Brady Plan has made a good start. It demonstrates that the case by case approach is workable and viable.

As creditors, we accept that certain lower middle-income countries may face genuine debt overhang problems. The London summit's directive to the Paris Club to continue "examination of the special situation of some lower middle-income countries on a case by case basis" must be pursued.

The desperate plight of the highly indebted poorest countries would be mitigated by progress on enhanced Toronto terms. The London summit agreed on the need for additional debt relief, on a case by case basis, "going well beyond the relief already granted under Toronto terms" and called on the Paris Club "to continue discussions on how these measures can best be implemented promptly." Canada is disappointed that progress has not been more rapid. We urge that creditor countries make every effort to clear away any domestic impediments as soon as possible so that they can help forge a consensus at the Paris Club.

Chile (Governor Larre) 1/

Our assessment of the current status of the external debt problem is now more favorable than in the past. We cannot underestimate the progress made by several Latin American countries in implementing adjustment programs and restructuring their external commitments. Also noteworthy are the new and gradual access to voluntary credit achieved by some of them and the

almost-generalized increase in secondary market quotations for their external debt instruments.

However, many developing countries continue to face serious problems owing to the continuing excessive indebtedness they still have, and resolving them will require the participation and support of all the parties concerned. In this regard, we appreciate the unprecedented debt reduction policy implemented for some middle-income countries, such as Poland and Egypt, in the context of Paris Club negotiations, and reiterate our appeal to its members for equivalent operations to be carried out with other countries at comparable levels of development and for furthering the recent progress achieved in the implementation of the Trinidad terms for heavily indebted, low-income countries.

We are also pleased that external debt and debt-service reduction operations, as well as the provision of guarantees and financial enhancements, have come to form an integral part of Fund programs, thereby contributing to reducing the premium paid for country risk and to reversing capital flight.

But to continue moving toward restoring our countries' access to voluntary credit, it is essential that the institutions regulating banking activity in the developed countries acknowledge the headway made by the countries of Latin America, so that those which have made progress toward solving their debt problems can be removed from the list of countries for which special provisions are required, thereby facilitating the resumption of lending from the private international banking sector.

In sum, while there have been significant advances regarding debt, to resolve the issue definitively, it will be necessary to continue the approach that combines the essential domestic adjustments in the countries of Latin America with the equally irreplaceable contribution of the multilateral organizations, the governments of the creditor countries, and the international banking community.

China (Governor Li)

We have noted that, since 1990, some progress has been made in addressing the debt problems facing the developing countries through the concerted efforts of debtors, creditors, and multilateral international financial institutions such as the Fund and the World Bank. We have to recognize, however, that the debt strategy has advanced slowly. The present magnitude of the number of countries confronting debt problems raises questions concerning the efficacy of the conditions imposed in debt reduction operations to improve the underlying debt problems of the developing countries. Obviously, the debt problems remain grave. Unfavorable external conditions have impeded the implementation of macroeconomic stabilization and structural reforms in debtor countries and have also aggravated their exports and economic growth. It is our belief

that the underlying solution to the debt problem will depend on economic growth and increases in exports. Nonetheless, adjustments should not only be made by the debtor countries. Concerted efforts by both debtors and creditors are required. In this connection, we urge major industrial countries to make efforts to improve the international economic environment with the aim of creating a better external environment for adjustment and growth in the developing countries.

France (Governor de Larosiere)

As regards the debt of the poorest countries, it is now urgent to reach agreement over substantial improvement of the Toronto terms. France supports debt reduction of 50 percent to 80 percent on a case by case basis with a menu of concessional options. All creditors should quickly join the emerging consensus.

As for the lower middle-income countries, solutions have been found in the cases of Poland and Egypt. They neither constitute a general precedent nor can be considered as absolute exceptions. Paris Club creditors should be allowed to offer on a case by case basis debt or debt-service reduction for those countries which are engaged in strong adjustment efforts.

Germany (Governor Waigel)

Additional debt relief measures for the poorest, most indebted countries that go well beyond the Toronto terms are overdue. The Paris Club must quickly come to a clear-cut decision on this issue.

Hungary (Governor Kupa)

Let me echo Mr. Preston's report to the Development Committee regarding the debt issue. I fully agree with him when he states that the debt overhang is a severe constraint on growth in many countries. The interests of the heavily indebted countries will be best served with their continued participation in the international financial system. With reference to this, I would like to say some words about those countries, including, of course, Hungary, which are maintaining the full service of their debt and are performing satisfactorily under World Bank and Fund programs. These economies, with strong determination and, believe me, sacrifices have been able to endure external shocks and avoid rescheduling. For these countries the preservation of market access is of vital importance. No doubt, the Bretton Woods institutions are closely following the developments in these cases. But, I am convinced, this is not enough and will not be enough in the future, when the access to markets is not going to be easier. The World Bank and the Fund should find the ways and means to give strong and, if needed, repeated signals of full support toward the markets. This would back the efforts of these committed governments and people.

Indonesia (Governor Sumarlin)

Let me now turn more specifically to the developing countries. There is some good news in parts of the developing world. For the developing countries, however, the situation generally remains discouraging. To the still burdensome debt situation and the inadequate and declining level of resource transfers is now added an adverse terms of trade impact. While the debt strategy has gained increased flexibility and a more versatile menu of options to deal adequately with the problem for many debtors, further evolution of the strategy is needed.

It seems ironic that the net flow of private finance to the developing countries should fall drastically over precisely the period in which a strong consensus emerged on the importance of a greater reliance on the private sector in the growth process. Ways need to be found to enable and encourage the private international financial markets to provide increasing resources to the developing countries.

Ireland (Governor O'Connell)

Our discussions throughout the 1980s were dominated by the debt crisis. The fact that this issue is no longer at the top of the agenda is a reflection of the concerted efforts in recent years to implement an effective debt strategy. Much of the credit for this must go to the international institutions. The problem is still acute, however, and debt and debt servicing continue to impose an enormous burden on the developing countries in particular. The problem is aggravated in some instances by accumulated arrears and poor track records in making adjustments. It is a hard fact of life that a number of countries are caught in a vicious circle and have no prospect of making progress without outside assistance. The international community has an obligation to provide such assistance and to insist in return that certain disciplines are enforced.

Islamic Republic of Iran (Governor Noorbakhsh)

Concurrent with the emergence of the debt crisis, the economic and social conditions in developing countries, and particularly in severely indebted countries, have been deteriorating since the beginning of the 1980s. We support the adoption of growth-oriented structural adjustment in countries facing large debt overhangs, but such efforts should be assisted by appropriate measures in industrial countries aimed at increasing access to their markets and relieving the debt burden of severely indebted countries. Industrial countries should enact appropriate laws and regulations inducing commercial banks to extend financial facilities with easier terms to developing countries. No one will gain from the situation of timely debt servicing to the detriment of economic growth and development.

Japan (Governor Mieno)

My second topic regarding development strategy is the debt issue. In order to reach a fundamental solution to this problem, it is essential that debtor countries reach agreements with the IMF, the World Bank, and other international financial institutions on programs for economic structural adjustment and put all their energies into rebuilding their economies....

Finally, I believe that the issue of official debt reduction should be approached with great caution, since the reduction would discourage debtor countries that are now faithfully repaying their borrowings to continue doing so and prevent developing countries from attracting new money.

Kuwait (Governor Al-Sabah)

In this respect, we welcome the recent Group of Seven agreement for additional relief to the poorest, most indebted countries beyond the Toronto terms.

Malaysia (Governor Ibrahim)

The debt problem of developing countries continues to be a matter of serious concern. The resolution of the problem has not progressed much since the crisis began in 1982, although the international debt strategy has evolved considerably in recent years. The present debt relief provided by the Paris Club does not offer a satisfactory solution to a number of the poorest countries. Further progress in extending debt relief is necessary, as proposed in the Trinidad and Tobago terms and endorsed in the recent Group of Seven London summit. Malaysia feels strongly that the initiative provided to Poland and Egypt should be similarly extended to low- and middle-income, severely indebted countries that are undertaking adjustment. A two-tier solution that discriminates against the poorest and hardest hit is not consistent with the pronouncements of the new order.

Malta (Governor Bonello Du Puis)

In the area of debt refinancing, we would like to see the introduction of more effective forms of relief to alleviate the debt burden of the heavily indebted countries. The Brady initiative has been successful, but its application so far has been limited. For the low-income countries, the debt relief measures proposed by the United Kingdom at last year's Commonwealth Finance Minister's Meeting certainly improve on the Toronto terms package and should be endorsed by creditor countries.

Within this context it is pertinent to mention the active and constructive role that the Bretton Woods institutions continue to play in the debt strategy and in efforts to direct greater resources to developing countries. We note with satisfaction the Fund's decision late last year to widen the scope for use of the compensatory and contingency financing

facility (CCFF) by the inclusion of an oil import element. While the decision was taken in response to the Gulf crisis, there is certainly a case for maintaining coverage of this element into the future, given the destabilizing impact that a sudden surge in oil prices can have on the balance of payments of fuel-importing developing countries.

Nepal (Governor Acharya)

With regard to the debt problem of developing countries, the recent initiatives taken under the Paris Club and Brady Plan are commendable. In relation to the severely indebted, low-income countries, we feel that there is a heightened need for further concessional debt relief beyond the Toronto terms.

Netherlands (Governor Kok) 2/

Many developing countries see their development efforts complicated by an excessive debt burden. The continued validity of the strengthened debt strategy is underscored by the fact that several developing countries, particularly in Latin America, seem to be emerging from their debt problems. Sound and sustained adjustment policies have resulted in a more viable balance of payments situation and a promising return of private capital flows.

However, the strengthened debt strategy can offer only limited relief for the severely indebted lower-income countries, since they owe the bulk of their debt to official creditors. At the time of the last Annual Meetings, a series of initiatives was launched to tackle this problem; these proposals included additional debt-relief measures on a case by case basis, going well beyond the relief already granted under Toronto terms. We call upon the Paris Club to round off the discussion on these initiatives successfully.

Pakistan (Governor Aziz)

Finally, the debt problem needs to be resolved if the development process is to regain its momentum. The international community must agree to enlarge the financial package in a manner that countries which have maintained their liberal trade and tariff regimes and have discharged their debt obligations faithfully in a difficult situation would also benefit from it. It is important to reward good performance lest we create a moral hazard problem for the global community.

Paraguay (Governor Otazu Gimenez)

A number of developing countries have designed policies to reverse the situation of negative transfers of resources and, simultaneously, normalize their relations with external creditors. We can say that the external debt affected our economies as negatively as would a war. Therefore, it has hindered our access to the fresh external resources so necessary to

complement domestic savings. Paraguay has not escaped the pernicious transfers and the direct effects mentioned above. The restrictions that the Government faces constitute a constant obstacle to the process of economic reform that has been carried out with effort and persistence since February 1989.

Sweden (Governor Dennis) 3/

The poorest countries continue to depend heavily on concessional assistance, and it is obvious that they need additional debt relief in order to gain momentum in their adjustment efforts. Therefore, the creditor countries in the Paris Club should expeditiously implement a rescheduling, which goes well beyond the Toronto terms, for this group of countries.

Tanzania (Governor Kibona) 5/

The debt overhang is still an albatross around the neck of many African countries. Reducing this burden is a sine qua non for achieving the goal of sustained economic growth and reviving investors' confidence. The Bank and the Fund must be the lead institutions in getting this message across to official creditors and the commercial banks through the inclusion, in adjustment programs, of debt reduction proposals consistent with a country's ability to repay, with adequate margin for growth. The need for the injection of new money in debt reduction packages should also be emphasized. At the same time, we urge the Paris Club to fully implement the United Kingdom's debt and debt-service reduction proposal, made in Trinidad and Tobago in 1990 and endorsed by the major industrial countries at the London Summit of July 1991, and to extend the arrangement concluded with Poland to African countries whose circumstances warrant similar treatment. We also call attention to the successful efforts being made by a number of countries, including some with heavy debt burdens in terms of conventional ratios, to weather external shocks while maintaining full debt-service payments and avoiding rescheduling. We urge industrial countries and multilateral organizations to provide appropriate support to these efforts so as to facilitate the retention of access to international capital markets and the provision of voluntary loans to these countries. It is essential that prompt, adequate, and flexible official assistance be made available to support such efforts.

United States (Governor Brady)

In other regions of the world, the IMF and the World Bank are addressing their ongoing responsibilities by playing a crucial part in the success of the international debt strategy. Under this strategy, the IMF and the World Bank have encouraged market reforms and supported a wide variety of commercial bank packages in several debtor countries in varied economic circumstances. Mexico, Chile, and Venezuela are once again enjoying voluntary access to the international capital markets, new

investment, and returning flight capital. Only a short while ago, they were mired in debt.

Viet Nam (Governor Cao Si Kiem)

We also greatly appreciate the Fund's and the Bank's initiatives in solving the debt problems. Yet, it is our view that improvement of the debt-servicing capacity of the highly indebted countries greatly depends on assistance by creditors to debtors to foster sustained economic growth and increase their export earnings. Debt relief, debt restructuring, and removal of the trade barriers by the industrial countries would help achieve these two objectives. This also calls for a closer coordination of policies among member countries and a more active role for the Bretton Woods institutions.

8. Trade Liberalization

Afghanistan (Governor Hakim)

We have also noticed that general growth in world trade was also accompanied by large fluctuations in the value of the major convertible currencies and by problems in marketing. However, there is a gradual but significant "opening of the door" to market economies in almost half of the world. This could bring about some profound changes and reevaluations of financial and monetary policies, which, even in the initial stages, would give a welcome boost to the total volume of trade.

It is worth mentioning that, for the developing countries, and particularly for the less developed ones, nontariff barriers still continue to shadow the prospects for export earnings and national incomes. Their effects could be substantial in relation to the level of official development assistance. My delegation supports the idea of the transfer of real resources to the developing countries, emphasizing the responsibility of advanced countries to reduce trade barriers and further liberalize the multilateral trading system so as to ensure export-oriented economic growth.

Antigua and Barbuda (Governor Joseph) 4/

This interdependency ought to find meaningful expression in a successful conclusion to the Uruguay Round of multilateral trade negotiations--a result that we eagerly anticipate.

Australia (Governor Kerin)

The second danger lies in the urgent problem of international trade, where the industrial countries have a special responsibility to show leadership. As the President of the Bank has noted, 20 of the 24 OECD countries are more protectionist now than they were 10 years ago. The loss

in income to developing countries caused by industrial countries' protectionism is estimated to be about twice the total value of all official development assistance. The cost to themselves of industrial countries' protectionism is even greater. It has been estimated that the ending of agricultural subsidies would reduce the U.S. trade deficit by more than US\$40 billion, and generate 3 million new jobs within the European Community.

Success in the Uruguay Round, in the very near future, is critical to the future of the multilateral trading system. The President of the Bank has already observed that no international issue affects the developing countries more than this. If the Round fails, many countries may react by stepping backward into direct protectionism and inward-looking trading blocs, depriving the world of large efficiency and welfare gains.

Australia was profoundly disappointed at the failure of leadership shown by industrial countries in the Uruguay Round last year. We must ensure that this is not repeated this year. As finance ministers, we have a special responsibility to insist that our ministerial colleagues for agriculture and industry recognize the broader national and international interests involved.

Reductions in protection, especially in Europe and especially in agriculture, are necessary for success in each of the great economic endeavors before us now--bringing prosperity to Eastern Europe and the Republics of the Soviet Union, helping countries in other regions to make the transition to open, market-oriented economies, and restoring heavily indebted countries to a more viable condition.

The challenge for industrial countries in reducing protection is considerable--as we in Australia know from recent experience--but it should be seen in perspective. The extent of adjustment required on the part of sectional interests in the industrial countries is much less than what is now occurring in Eastern Europe, or what is required of many developing countries under the Fund's and the Bank's adjustment programs.

Bangladesh (Governor Rahman)

Bangladesh urges commitment to continuing efforts to strengthen and to protect the multilateral trading system through the GATT. We are dismayed at the entrenched protectionism in major industrial economies, and we only hope that these tendencies can be reversed. We look forward to an early and satisfactory conclusion of the Uruguay Round talks.

Belgium (Governor Maystadt)

The first source of savings, both obvious and difficult to achieve, is the elimination of protectionism in world trade. I congratulate the Fund staff for having made this an essential issue in their latest analyses of

world economic prospects by putting their finger on the important contribution that the elimination of protectionist measures could make to restoring equilibrium to world savings. As Governors, responsible for achieving the objectives of our institutions, we cannot ignore the enormous stakes involved in completing the negotiations on the Uruguay Round.

Because of the economic distortions that it preserves, protectionism leads to suboptimal commercial exchanges just at the time when new countries are seeking to participate in world trade.

Furthermore, it confronts the IMF with the risk of having to provide balance of payments assistance to cover deficits which ought normally to be absorbed by freer access to world markets. This situation is all the more worrisome in that it is contrary to the statutory objectives of the IMF's financial operations.

In order to highlight the negative effects of protectionism in this area, I would invite the Fund staff to make a more systematic estimate of the additional resources that the institution is required to mobilize in the context of stabilization programs which suffer from the start from serious trade constraints.

Canada (Governor Smee)

No structural reform is more important internationally than the successful conclusion of the Uruguay Round. It must be the top priority on the international economic agenda over the next few months. We must find the political courage to succeed.

Agriculture remains a key element. Eliminating the \$100 billion budgetary cost of agricultural subsidies would finance the increased investment needs of Eastern Europe and the Middle East. Eliminating destructive subsidies would allow productive efficiency, not government dictate, to determine trading and production patterns.

Chile (Governor Larre) 1/

Precisely because of the spreading adoption in the region of structural adjustment programs--one essential component of which is the liberalization of foreign trade and the prioritization of exports as an engine of economic growth--we are concerned about the intensification of protectionist policies in the industrial countries and attach fundamental importance to the successful conclusion of the Uruguay Round.

In fact, we are concerned by the fact that the nontariff barriers set up by the industrial countries have increased significantly, quotas and voluntary export restraints have proliferated, and 20 of the 24 OECD economies are now relatively more protected than during the 1980s.

Not only do these policies run counter to the basic principles of free trade and lead to less efficient resource allocation on a world scale, they also reduce the benefits Latin American countries can obtain by adopting a development strategy emphasizing the role of exports.

This is why we believe that efforts must be redoubled to take advantage of the historical opportunity represented by the Uruguay Round to prevent the distortions and negative economic effects generated by protectionism, subsidies for various sectors, and unfair international trade practices.

Fiji (Governor Kamikamica)

The suspension of the Uruguay Round negotiations is another concern of developing countries, as it poses a direct threat to our long-term growth and external viability. World trade is expected to grow by about 2 percent in 1991 as against 7 percent in 1990. As part of the overall trend toward market-oriented economies, developing countries are liberalizing their trade policies on the reasonable expectation that the international trading system will be supportive of their efforts. The outcome of the GATT negotiations will be crucial to the future pattern of world trade, the economic prospects of developing countries, and the solutions to their external debt problems. Let us, therefore, be mindful of the comment by the past President of the World Bank, Mr. Conable, to the Development Committee earlier this year that "the potential annual gains to developing countries from the removal of developed countries' trade barriers represent double the interest payments by developing countries on their public debt or double the annual flow of official development assistance." These are striking calculations indeed. While we welcome the reactivation of negotiations, a deliberate commitment should be made and a firm date set to bring the Uruguay Round to a successful conclusion.

France (Governor de Larosiere)

Our economies are interdependent. We must preserve and consolidate the multilateral trade system and make the benefits of open and rapidly growing markets available to Eastern European and developing countries alike. Rapid conclusion of the Uruguay Round is a priority. To be fully successful, it must be associated with economic policies that enable strong growth while avoiding the resurgence of destabilizing international imbalances as well as the uncertainties associated with disorderly exchange rate fluctuations.

Germany (Governor Waigel)

The reforming countries can best be supported by helping them to help themselves. But they will only be able to mobilize their own resources and integrate themselves into the world economy if they have access to open markets in which to sell their products. The commitment to a further opening of our markets, sensitive areas included, should not remain mere lip service. The worldwide dismantling of barriers to trade by the swift

completion of the Uruguay Round will be the decisive stimulus to growth that the world economy needs in this difficult phase.

Hungary (Governor Kupa)

Let me underline a very important obstacle to our export-led adjustment, which is equally important for the other Central European countries. I am talking about market access. In order to reap the full gains of its rapid reorientation of exports, Hungary needs additional support on trade issues. Only greater access to the markets of the industrial world can give Hungary and Central Europe the stimulus needed for the restoration of growth and full integration into the world economy.

Indonesia (Governor Sumarlin)

The current historically low terms of trade are battering those countries heavily dependent upon the export of primary products. The only sustainable solution to their problem is to diversify their economies. This is a lesson my own country--once highly dependent on primary exports--learned long ago, a lesson that was reconfirmed for us by the decline in oil prices in the 1980s. But this solution requires an adequate flow of resources to finance the process of diversification.

Equally important, it requires an open international trading system. For this and many other reasons all members of the world community must be increasingly concerned with the continued failure to achieve a satisfactory conclusion to the Uruguay Round. Trade policy seems increasingly focused on forging regional trading arrangements. Such arrangements in a context of open trade can be virtuous--creating economies of scale as trade opportunities for all expand. However, in a protectionist world these regional arrangements can soon degenerate into inward looking blocs. That is a danger we must all strive to avoid.

The leading parties to the discussions must show the political will to bring the Uruguay Round to a successful conclusion. If they fail, the credibility of adjustment programs based on outward-looking trade policies is at risk.

Ireland (Governor O'Connell)

The continuing failure to complete the GATT negotiations has been a big disappointment. A year ago there was optimism that these negotiations would finally be brought to a satisfactory conclusion quickly, opening the way for a steady and balanced expansion of world trade. I sincerely hope that the general accord on the need for a successful conclusion will lead to an early and positive outcome.

Israel (Governor Modai)

The industrial countries are called upon to increase their involvement beyond sending some emergency food shipments to these countries as the coming winter approaches. They should expose their markets to the new market-oriented economies. The western industrial nations will also have to commit themselves to purchasing these countries' exports on a massive scale. Since every nation which "takes off" first produces primary products such as agriculture products and textiles, the "food mountains" in the European Community and "textile quotas" in the United States should both be phased out, allowing these new economies to sell their primary products and accumulate savings for investment in upgraded sectors.

This is a gradual but essential process to be undertaken while, in the final analysis, it should always guarantee stable and tranquil transition. If the new market-oriented product cannot find its way to the industrial countries, the people of yesterday's command economies will export themselves in the form of human capital and settle in the wealthy countries.

Italy (Governor Carli)

In the Eastern European countries, the breakdown of the intraregional trade agreements has added to a fall in output and the spread of unemployment. The expected reward of the courageous reform efforts of some of these countries became elusive at the very moment of its initial appearance. These countries have engaged in trade liberalization reforms in anticipation of an increased access to markets. Western countries should act accordingly.

Failure to successfully conclude the Uruguay Round would seriously challenge the progress made in recent years in the area of international economic relations and could even raise the risk of major setbacks in current commercial agreements or practices.

Japan (Governor Mieno)

Furthermore, it is vital to the solid foundation of global economic development that we maintain and enhance the multilateral free trade system. Therefore, each and every one of us needs to cooperate more fully to bring about a successful conclusion to the Uruguay Round before the end of 1991.

Malaysia (Governor Ibrahim)

In recent years, new and fresh obstacles have been laid in the way of the free flow of trade. The immediate priority to sustain an open and a competitive system of trade is to bring the Uruguay Round to a successful conclusion. The developed nations need to seek a pragmatic solution to the issue and allow competition to flourish through market forces and not through subsidization of inefficient industries. Unless the logic of the

free market is applied by the powerful, we cannot deflect the dangers of protectionism and inward-looking regionalism.

Malta (Governor Bonello Du Puis)

There are many other important issues that need to be addressed at an international level. Trade policy developments are certainly high on the list. Although much progress has been achieved in recent years in expanding international trade, protectionist tendencies still persist in certain areas. There is, therefore, a pressing need to bring the Uruguay Round negotiations to a successful conclusion since the efforts of the developing countries to maintain growth and diversify their export products can only succeed if access to the markets of the industrial countries is improved.

Nepal (Governor Acharya)

In the area of trade, protectionism in the industrial countries has continued in spite of the need for its elimination. The world is now moving toward regional trading blocs. This closer regional integration may not lead to discriminatory trading prospects, but if it does, the long-term global prospects can be affected adversely and many developing countries outside these blocs will receive further setbacks. To avoid such an undesirable event, the success of the Uruguay Round is critical.

Netherlands (Governor Kok) 2/

Besides a more stable monetary system, economic growth should also be enhanced by abolishing trade restrictions. By the opening up of markets, the developing countries and the Central and Eastern European countries will be helped to help themselves. Even generous financial support is a mere palliative, if these countries are denied access to export markets and export-led growth opportunities. Owing to persistent protectionism propped up by special interest groups, inefficient patterns of production have become more and more ingrained in the world economy and increasingly difficult to uproot. The EC countries intend to overcome such pressures. In this context, it is essential that the Uruguay Round comes to a successful conclusion before the end of this year.

In the field of agriculture, the EC, along with the other participants in the GATT, has stated its willingness to conduct negotiations to achieve specific binding commitments on domestic support, market access, and export competition. Reform of the Common Agricultural Policy is being debated in the Community and should contribute positively to the GATT discussions and help in arriving at a successful conclusion of the Uruguay Round.

However, progress will have to be made in other areas as well, such as services, intellectual property, textiles, tariffs, and other issues of market access. All parties bear a heavy responsibility in these matters. If the Uruguay Round fails, all participants will suffer for years to come.

New Zealand (Governor Kidd)

A successful and comprehensive conclusion to the Uruguay Round will provide a significant noninflationary stimulus to growth. That stimulus will reinforce and be reinforced by the process of economic liberalization taking place within many of our countries.

The increase in efficiency flowing from a successful conclusion to the Uruguay Round, including most critically agricultural trade liberalization, would have three very positive results.

- By lowering protective barriers, we would provide a much needed boost to the economies of all developing countries through trade not aid, thus supporting the ongoing efforts to alleviate the debt problem;
- Reducing the level of subsidies would leave us in a better position to provide the investment capital so badly needed in Central Europe, the U.S.S.R., and the developing countries. This could be done without putting further pressure on fiscal deficits and financial markets;
- Benefit would also accrue to the industrialized countries, with a more efficient use of resources leading to higher incomes and reduced pressures on the environment.

The possible gains are large:

- The Organisation for Economic Co-operation and Development (OECD) has estimated that the cost to taxpayers and consumers of agricultural support in developed countries is \$300 billion a year. The fiscal costs alone are \$100 billion, which is substantially more than total flows of development assistance provided by industrial countries;
- The cost to developing countries of industrial country protection greatly exceeds the value of development assistance.

The gains from trade liberalization would make a significant contribution to reducing the shortage in world savings. Those gains could well have a bigger and certainly a more immediate impact than the prospective peace dividend.

All the elements necessary for a successful completion of the Uruguay Round are now available. What we need is the political will to finish a job that has taken far too long....

The alternative to a successful Uruguay Round is daunting. At best we would see the emergence of two or three strong regional trading blocs. Those might well exclude many of the poorest and most vulnerable countries, including most of our Commonwealth sister states and our neighbors, the small island states of the Pacific. While we would not necessarily see

ourselves excluded from such regional blocs we are by inclination and necessity determined multilateral traders. A much worse scenario would see individual countries imposing ever increasing trade barriers. Even seemingly stable regional trading arrangements could collapse.

It is easy to overstate the short-term advantages of protection. Lobby groups ensure that they are emphasized. But protectionist policies do not just harm foreign producers. They also harm the export sector, encourage the misallocation of scarce investment funds, and stimulate the growth of uneconomic industries. Dismantling such a structure to achieve better economic performance is a long and difficult process. It becomes more difficult the longer it is delayed. In New Zealand, we know the costs only too well.

Pakistan (Governor Aziz)

The next issue I would like to highlight today relates to trade liberalization. All member countries have urged completion of the Uruguay Round. We had, until recently, assumed that the Round would be completed before the end of the year and in the process, the Multifiber Arrangement on textiles would be phased out soon. The time has come to recognize the perils of not completing the Uruguay Round. Where will that place us as we approach the end of the twentieth century? We are all aware that a substantial growth in world trade has made a significant contribution to the postwar prosperity of the world community. The recent decline in world trade is a cause of very serious concern to developing countries, particularly to those which are moving toward market-oriented and outward-looking economic systems, increasing their output, and generating exportable surpluses to meet their investment needs, as a welcome shift from previous reliance on aid flows. The cost of current trade restrictions to developing countries amounts roughly to twice the annual interest payments on their public external debt or about twice the annual volume of official development assistance they receive from the industrial countries.

Papua New Guinea (Governor Nigints)

Much of what we say about trade liberalization and efficiency rests on the shoulders of industrial nations. Let us be serious and fair in our efforts to improve the world economy. Industrial countries must be serious about liberalizing trade and minimizing subsidies. They owe it to the rest of the world. It would be good if they could free up more resources for development through lower defense expenditure. But we cannot insist on this. It is really up to each individual country to decide. We can, however, insist that they free up their markets and reduce subsidization. I call on the Bank and the Fund staffs to increase efforts in this area.

Paraguay (Governor Otazu Gimenez)

In that sense, it is worth mentioning the unfavorable international economic conditions, such as the persistence of slow growth of output and world trade and the protectionism of industrial countries, which has weakened trade and lowered the price of raw materials. The latter comprise the larger part of exportable goods of developing countries. As a result, much of the internal effort will be diluted unless protectionism is reversed and agricultural subsidies are discontinued.

Peru (Governor Behr)

I join other Governors who spoke before me in calling for a prompt end to the Uruguay Round of multilateral trade negotiations.

South Africa (Governor Du Plessis)

Structural economic adjustment programs forced on many developing countries by a changed international environment often involve more than the responses of the individual countries themselves. A further global liberalization of international trade and an orderly reduction of prohibitive import tariffs have become imperative ingredients of those drastic changes now demanded of many developing countries....

Greater access to foreign goods and financial markets and the correct timing of such access are equally important factors. The delay in the Uruguay Round of the GATT talks is therefore a matter of grave concern.

Spain (Governor Solchaga)

For the Bretton Woods institutions to be truly effective in each and every area entrusted to them, we, their shareholders, must also be prepared to make the necessary changes dictated by the new international context. In particular, two areas are now no less than urgent: strengthening of the linkages between our institutions and GATT and a significant increase in the IMF's own financial resources.

It would be politically regrettable and economically very costly if we were not to seize the historic opportunity offered by the Uruguay Round for expanding trade liberalization in our economies. The debt crisis has shown us that access to capital markets is not a substitute for access to goods markets and that without a freer trade structure than exists at present, the possibilities for sustained growth in a good number of developing countries are scarce. We therefore feel that the time has come for closer coordination between the IMF, World Bank, and GATT, recreating the three pillars on which the recovery of international prosperity was based after World War II.

Tanzania (Governor Kibona) 5/

On the Uruguay Round of negotiations, we call on the negotiating parties, and especially the industrial countries, to take due cognizance of the Resolution adopted by the Summit of our African Heads of State and Government in Abuja, Nigeria, in June 1991, to ensure maximum transparency in the negotiations at all levels during the final and decisive phase of the Uruguay Round of negotiations. The Resolution, among others, calls on the industrial countries to take into account African interests in the finalization of the negotiations so that the outcome of these negotiations will result in improved access for all products of interest to African countries and in more vigorous application of the principles of special and differential treatment for African countries, and so that no additional obligations are imposed on African countries without additional offsetting rights to safeguard the existing balance on GATT rights and obligations.

Thailand (Governor Singhasaneh)

Second, being a major beneficiary of the open trade and payment systems, we in Thailand have observed with concern that the open, multilateral system of world trade has come under increasing strain in recent years. We would like to express our extreme disappointment in the lack of success of the Uruguay Round. It is ironic that many industrial countries, while publicly reaffirming their belief in free market principles and extending timely and strong support to the movement toward the creation and development of free market regimes in Eastern Europe and the U.S.S.R., simultaneously are the very countries putting up obstructions and refusing to lower or dismantle trade barriers vis-a-vis other dynamic developing countries. Moreover, they are using strong-arm tactics in forcing bilateral concessions from smaller and weaker developing economies. A successful and timely conclusion of this important multilateral GATT process is vital to stable world economic progress and revived world trade expansion.

Tonga (Governor Fakafauna)

Tonga also shares the Fund's concerns that the integration of the U.S.S.R. and Eastern Europe into the global economy, together with the vast sums needed to reconstruct the war-damaged economies of the Middle East, implies a long period of relative scarcity of capital and, potentially, upward pressure on global interest rates. Minimizing the disruptions these developments will invariably impart to the world economy is rightly a priority for the Fund; the successful conclusion of the stalled Uruguay Round, through its impact on trade liberalization, would prove very useful in this context.

Vanuatu (Governor Molisa) 6/

The economies of the small countries of our constituency continue to be dominated by increasing external trade deficits and are likely to remain so

for a long time. With limited resource bases, weak infrastructure, and isolation from the major markets, our export commodities are less competitive. The downward trend in international prices of our primary exports and the restrictive trade practices of industrial developed countries, especially relating to trade in agricultural products, produced depressing effects on our efforts to compete in international trade. The successful conclusion of the Uruguay Round of multilateral trade negotiations could thus help to improve the plight of our external trade position.

Venezuela (Governor Rodriguez) 7/

As for the Uruguay Round, not much can be added to all that has already been said about how much hope and frustration is associated with this process.

The successful completion of the Uruguay Round is essential not only in order to enhance international flows of goods and services, with the obvious repercussions for the well-being of all that this entails. The success of this process has already acquired a very important symbolic value in relation to such issues as international cooperation, the moral authority to ask others to do what one cannot do oneself, credibility, sustainability of reforms, and so on.

Viet Nam (Governor Cao Si Kiem)

We also greatly appreciate the Fund's and the Bank's initiatives in solving the debt problems. Yet, it is our view that improvement of the debt-servicing capacity of the highly indebted countries greatly depends on assistance by creditors to debtors to foster sustained economic growth and increase their export earnings. Debt relief, debt restructuring, and removal of the trade barriers by the industrial countries would help achieve these two objectives. This also calls for a closer coordination of policies among member countries and a more active role for the Bretton Woods institutions.

9. Military Expenditure

Afghanistan (Governor Hakim)

It can never be ignored that the insurmountable debt service, coupled with a scarcity of internal financial resources and external financial restraints, has the developing world on the verge of real catastrophe. It is unimaginable that countries in such a position would indulge in long-lasting regional wars, high military expenditures, and the large-scale exodus of refugees.

Antigua and Barbuda (Governor Joseph) 4/

The increased global need for savings is an expression of the need for developed countries to strengthen their fiscal performances. Opportunely, the end of the Cold War offers large possibilities for providing such savings through reductions in military expenditures. If the developed countries can generate higher growth for themselves through the peace dividend, the possibility exists for developing countries to benefit from increased demand. If, at the same time, lower real rates of interest are achieved, then for developing countries capital will become cheaper, investment stimulated more rapidly, and debt burdens reduced more quickly. This does not gainsay the need for more effective measures for developing countries' debt relief and the need to ensure that debt relief is not extended at the expense of official development assistance.

The leadership of both the Bank and the Fund should rise to these global tasks. We are convinced that they can, but we wish, nevertheless, to indicate our concerns regarding certain areas of their operation.

Australia (Governor Kerin)

We would encourage other countries to examine critically their public expenditures, especially military spending, and ask themselves whether they can afford not to have these resources devoted to education, to health, or to other constructive purposes.

Bangladesh (Governor Rahman)

In this context, we are heartened by the expectation of Managing Director Camdessus about the potential increase in global savings in view of the lessened international tension, and we strongly endorse his call, and the calls of other Governors, for a reduction in military expenditure.

Belgium (Governor Maystadt)

A second area, also sensitive but equally important, is that of military expenditure. I would like to pay tribute to Mr. Barber Conable for having been the first person to criticize in public at these meetings the tremendous waste of resources that military expenditure represents, particularly for developing countries which have such a need for capital to accelerate their economic and social progress. All too often military expenditure contributes to budget problems, is favored over the financing of development priorities and, last, serves to protect the interests of a minority, to the detriment of the majority of the population.

If more complete information on arms budgets were available to the Bank and the Fund this would certainly be a considerable step forward. Nonetheless, in my view an improved statistical instrument should be only a first step: ideally, it should lead the Bank and the Fund to take a

position regarding excessive military expenditures when they impede a country's stabilization and development objectives from being achieved.

In my view, this kind of assessment by our institutions would be difficult to object to, since it would be part of the overall judgments that they must make regarding the proper allocation of the resources available to member states to achieve their economic objectives. This function would also have to be set in the current world context: the Bank and the Fund will increasingly be required to implement fundamental restructuring programs in countries and regions which in the past have seen numerous conflicts and escalating military expenditure. It would seem logical to me that reform programs in these countries should henceforward be partly financed by mobilizing the resources which up to now have been earmarked for military purposes.

The "conditionality" inherent in this approach could be based on the proposal from the "Independent Group on Financial Flows to Developing Countries" chaired by Helmut Schmidt. This group suggests that countries that spend less than 2 percent of their GNP on their security (in 1988 the military expenditure of the developing countries was 7 percent of GNP!) should be given special treatment in the provision of international assistance. Even if the application of this formula caused occasional difficulties, it would be a powerful incentive to reducing the waste of resources resulting from excessive armaments purchases by poor countries.

For the industrial countries supplying these weapons--and Belgium is one of them--it should be clear that the desire of the Bretton Woods institutions to reduce military expenditure ought to lead to a reduction in arms production, which consequently should induce them to plan for the conversion of the industries involved.

Canada (Governor Smee)

Furthermore, as the Fund points out, considerable scope exists to reduce these deficits by eliminating subsidies and reducing military expenditures....

In times of financial constraint, developing countries must critically review their spending priorities. Military spending cannot take precedence over the provision of basic health and primary education.

Chile (Governor Larre) 1/

This is not, however, the sole opportunity for economic progress now available to the international community. Another no less significant area--and one with vast implications--is that offered by the new climate of peace and reduced tensions in the international arena. This new and auspicious state of affairs opens, like never before, the genuine possibility of significantly reducing the enormous expenditures heretofore devoted to

defense and armaments and of reallocating to development the resources thus made available.

France (Governor de Larosiere)

In the longer run, the reduction and elimination of unproductive public expenditure would free the savings resources needed for reconstruction in the former centrally planned countries as well as for continued adjustment in developing countries.

Germany (Governor Waigel)

Comprehensive arms cuts are now within reach, making peace more secure and releasing funds for economic progress.

Greece (Governor Christodoulou)

Furthermore, it is necessary to underline the importance of a drastic reduction, if not outright elimination, of less productive public expenditures that are at the root of major resource misallocations. The recent political developments and changes should facilitate this process. The reallocation of such resources to socially more productive uses or their addition to national savings could be a major contribution to stability and worldwide growth. This is at a time when pressing financial requirements to sustain the necessary level of global investment face the risk of a shortage of available financial resources.

Kuwait (Governor Al-Sabah)

As Kuwaitis begin to face the depth and magnitude of the economic, social, and psychological damage caused by the Iraqi invasion, we join the international community in hoping that the reduction of international and regional tensions would allow us all, the industrial and developing countries, to reduce arms expenditure and devote more of our resources toward the betterment of mankind.

Malaysia (Governor Ibrahim)

The recent announcement by the United States about unilateral arms reduction, coupled with the end of the Cold War, should rightly bring about a huge peace dividend, which should be translated into the much-needed development assistance that the poorest of the developing countries are seeking.

Malta (Governor Bonello Du Puis)

Without doubt a major problem facing developing countries is the scarcity of international financial flows. These have fallen sharply from

the levels of the early 1980s. Given the substantial needs of Eastern Europe and the U.S.S.R. there is a fear that unless resources are boosted substantially there could be a diversion of financial resources from other developing countries to the Eastern region. It is therefore obvious that additional resources will have to be mobilized. In this respect, the ending of the Cold War offers an opportunity for both developed and developing countries to release funds previously directed to military expenditure for deployment in programs that contribute to economic development worldwide.

Mongolia (Governor Ganbold)

All of humanity is moving slowly but assuredly toward a world that cares more about development and less about military and political competition. Here Mongolia gratefully notes the contribution made to this process by the international organizations, among them the World Bank and the IMF.

Netherlands (Governor Kok) 2/

A substantial investment in human resources and physical infrastructure is required. The effectiveness of such policies depends on international economic cooperation and support, but mainly on good governance, and could often be enhanced by a cutback of disproportionate military expenditures.

Norway (Governor Johnsen) 8/

The management of development is a key element in the concept of governance. Effective and efficient use of scarce resources is necessary to reach our objectives. A particularly difficult issue is military expenditures--an issue I believe we must be willing to discuss openly, while avoiding simplistic application of quantitative indicators. With the end of the Cold War, minds and resources can be freed both in developing and developed countries.

Papua New Guinea (Governor Nigints)

Much of what we say about trade liberalization and efficiency rests on the shoulders of industrial nations. Let us be serious and fair in our efforts to improve the world economy. Industrial countries must be serious about liberalizing trade and minimizing subsidies. They owe it to the rest of the world. It would be good if they could free up more resources for development through lower defense expenditure. But we cannot insist on this. It is really up to each individual country to decide. We can, however, insist that they free up their markets and reduce subsidization. I call on the Bank and the Fund staffs to increase efforts in this area.

Thailand (Governor Singhasaneh)

It is evident that governance, military spending, and the environment are key policy issues that merit careful debate and consideration by multilateral development institutions as well as among donor and recipient countries. In dealing with the issue of governance, it is imperative that due and careful consideration be given to the historical, cultural, social, and economic background of a country. We do not believe there exists a golden rule that can be applied universally to all countries. On the deliberations on military spending, we believe overall world security has an important bearing on defense expenditures of all countries. For small countries, however, the regional security environment as well as specific country circumstances should be the overriding determining factors.

United Kingdom (Governor Lamont)

Help for the Soviet Union is not at the expense of anyone--the whole world will benefit from the integration of a democratic Soviet Union into the world economy. Successful reform will provide a vast new market for goods, an enormous increase in trading opportunities, a real stimulus to world growth. And, the reduction in military spending now in prospect will not only make the world a safer place to do business in, it will also allow resources, across the world, to be released for more productive use. Reform in the Soviet Union is not a parochial concern of Europe or the West. It is an unmitigated good for the entire world.

Venezuela (Governor Rodriguez) L/

We fully agree with Messrs. Camdessus and Preston in their recent description of the management of global resources as being inefficient, unfair, and irrational. Agricultural subsidies and military expenditures are among the most flagrant instances. The issue of military expenditure must be treated realistically and fairly for the benefit of all members of the international community.

10. Social Impact and Consensus Building

Bangladesh (Governor Rahman)

These adjustment programs are being supported by the Fund, the World Bank, and other multilateral and bilateral agencies and are needed to give our economy a sound footing for sustained growth. And yet, we cannot be oblivious to the social and political tensions that the pace and nature of such reforms may generate, particularly in a society devoid of social safety nets. We are concerned that such tensions, if not recognized while formulating and reviewing policy packages, may destabilize and disrupt the broad political consensus required to stabilize the democratic process.

Hence reforms, if pushed too hard and too fast, may become counterproductive and defeat the very objectives the reform programs aim to attain.

Chile (Governor Larre) 1/

Second, as clearly illustrated by our experience in the past two years, it is also possible in Latin America to design and apply policies oriented toward simultaneously promoting economic growth, price stabilization, and social justice within the framework of open and fully democratic societies.

China (Governor Li)

(Industrial countries should) take effective action, in particular through provision of sufficient financial assistance, to help developing countries overcome their economic difficulties. It is widely recognized by the international community that, without the arrest of the continuing widening gap between the North and the South in which the poor become poorer and the rich richer, the world economy will encounter more and more difficulties in maintaining long-term, steady growth. Thus, global peace and development will be endangered....

In communicating with the rest of the world, we continue to maintain the view of respect of sovereignty, peaceful coexistence, equality, and mutual benefits. Based on the history and experience of individual countries, the people and governments have the right to choose their own social and economic systems commensurate with their specific situations.

France (Governor de Larosiere)

Developing countries do not intend to and must not remain on the sidelines of the great movement toward openness and democratization which is taking place in all regions of the world. Many of them have recently undertaken radical and bold reforms, unilaterally opening their markets and abolishing restrictions and obstacles to foreign investment. They should be encouraged to continue along this path, as well as to pursue macroeconomic stability; indeed, in the worldwide competition for allocation of savings, it is necessary today to create the proper conditions and environment to induce spontaneous inflows of private capital....

In conclusion, I would like to stress the democratization and liberalization movement we now witness. This movement brings great hope. But it is clear that the countries that are now moving forward on the democratic path are also faced with the emergence of new tensions. Democracy is a difficult art. This is why we must make every effort required to increase international solidarity and thus to offer humanity the necessary elements of stability and prosperity.

Germany (Governor Waigel)

However, the threat of unpredictable developments has not been dispelled. Poverty, oppression, and violence--still the daily lot of countless people--are an intolerable offense against the values to which democratic countries are committed. The worldwide consequences of regional conflicts, floods of refugees, and threats to the natural environment are matters concerning us all. No country can withdraw to an island of peace and prosperity.

India (Governor Singh)

The task of bringing about change in a large and pluralistic democracy wedded to democratic traditions of a free press and free speech is not easy. Attitudes and beliefs have a habit of getting frozen, and vested interests masquerade behind the facade of public interest. India is combating these trends under a leadership determined to open up the country and integrate it more fully into the mainstream of the world economy in the belief that this will enhance our ability to deal more effectively with problems of mass poverty and social inequalities.

Israel (Governor Modai)

The new World Order is characterized by general disarmament and the dismantling of strategic weapons, excess supplies of oil and the consequent stabilization of oil prices, as well as the organizing of peace conferences around the world. The world is undergoing a process of democratization, striving for freedom of the individual, and decentralization of economic forces.

Japan (Governor Mieno)

We have now entered an era when the world sees a free economy unfolding on a truly global scale. But this world needs to pool its wisdom if all its people are to develop economically. It needs a strengthened international economic order led by the World Bank and the IMF.

Malaysia (Governor Ibrahim)

It is a matter of concern that we now see the trend toward the imposition of new conditions that are totally unconnected with trade. It would seem that the standard of what constitutes an acceptable and adequate approach to development is now higher for Third World countries compared to presently developed countries when they were at a comparable level of development. We must realize that common rules and aspirations can work only when they are adapted to the dynamics of specific problems and to the realities of the specific countries and their varying needs. The complexity of our interdependent world demands a genuinely democratic global response. We must also take into account the impact of domestic economic policies on

development and the social cost of its policies when applied to specific countries.

Nepal (Governor Acharya)

Apparently, just as economic equality could not be sustained at the expense of political liberty, so democracy will not survive without economic and social justice. Helping the poor is, therefore, not necessarily a zero-sum game. This calls for a reorientation of current economic thinking. We should be sensitive to the political content of economic policies and their potential effects on political freedom. There is a desperate need to humanize impersonal economic policies and processes. We should add a "democratic" dimension to our economic thinking in which people are in the forefront of economic development. Unless we act in unison, both at national and international levels, with a similar concern and orientation, we can not alleviate poverty and it will be yet another lost opportunity. Still worse, the political pluralism that we are experiencing may be placed in jeopardy.

Norway (Governor Johnsen) 8/

Economic growth is a requirement for development and poverty reduction. To what extent a satisfactory growth rate is achieved in an individual country depends to a large degree on its own policy decisions. Experiences from the 1980s show that consistency and perseverance in adjustment policies carried out by committed governments in general have led to success....

We further have the means to reach our goal of poverty reduction through the promotion of equitable and sustainable growth if we all show the necessary political will.

Papua New Guinea (Governor Nigints)

It has been very encouraging and certainly a privilege that, in our lifetime, we have witnessed incredible changes in the world economy today-- and I refer here mainly to the revolutionary changes that have taken place in the Soviet Union and in the countries of Eastern Europe. There is one strong message that comes out of these reforms and that is that people want to be free to express their minds and feelings, and people want to be free to enjoy the benefits of their hard work. Let us all encourage this spirit of freedom and lend support to those who are striving to achieve this freedom....

Let us not forget that any adjustment process requires change. We can develop wonderful programs for change, but let us not forget that change affects people and most do not readily and willingly accept change. It is our joint responsibility--the Bank/Fund and the member country--to skillfully and carefully manage the change. Many adjustment programs will

result in some loss of jobs in the short term, and we must ensure that the benefits in the long run far exceed the short-term losses. I call on the Bank and the Fund to provide mature and experienced staff to assist member countries in their adjustment programs. Real life is bigger and more complex than the economic textbook, and important lessons can only be learned and dealt with in the process of developing a country.

Philippines (Governor Estanislao)

Economic education, people empowerment, and institution building: these are the three prongs of a program that can help many countries translate agreed agendas into completed actions. These are the pathways open that democratic societies have to travel to go beyond broad consensus into concrete results....

The spark of freedom that has always flickered in the hearts of men has now become hundreds of millions of points of light across the globe. They now have to be fanned into a worldwide conflagration of development: one that transforms swords into plowshares; one that transports food from bulging warehouses into empty stomachs; and one that transfers resources from frivolous abuse to more productive uses.

The opportunity to substantiate freedom with progress and democracy with development is before us. Let us all seize it, and in seizing it, let us remember: Freedom has its price, and democracy its peculiar difficulties. For the sake of progress and for the cause of development, let us reach out farthest to all those putting in the best effort in paying the price and in facing up to difficulties.

Poland (Governor Topinski)

The question arises: will this region, so rich in natural and human resources, successfully make the transition to free market democracy and become an area of development and an engine of growth for the world economy? Or will the difficult reforms, now being launched or implemented, fail due to lack of internal and external support, causing the region to slide into a vicious circle of economic regression and political instability, thus becoming a perpetual drain on the international community's resources?

Of course, the answer to this question depends mostly on ourselves and our own patience and resourcefulness. The reforms could not have taken place without the wide popular support for the process in the respective countries, and it must be recognized that the path to economic improvement exacts a heavy social cost on the population: the risk of destabilization--as a result of popular discontent or from powerful opposing interest groups--becomes much greater. In order to maintain stability in the period of transition, economic reforms must go hand-in-hand with political reforms.

We have enjoyed overwhelming political support from the international community for our reforms. Without this endorsement, proceeding on the path to a market-style economy would be impossible. This support helped tremendously in achieving acceptance for the reforms on the domestic front.

South Africa (Governor Du Plessis)

The awareness of and concern about unemployment, poor living conditions, and extreme poverty, with millions of people now living close to the point of starvation, could hardly be greater than now. The gravity of the situation in many developing countries, including former socialist countries, has forcefully underscored the limitations of many of the approaches and remedies pursued in the past. To an increasing extent, it is being realized that, for economic growth to be successful in raising standards of living and reducing poverty over a wide front, a process of far-reaching restructuring is required. Ideally, this process should combine economic and political democratization....

Finally, and very importantly, countries involved in economic and social restructuring programs of this nature must give prime importance to the development of human resources. Access to appropriate education, training, and full participation by the people of the country form basic elements of such programs. It is also incumbent on governments to provide for maximum affordable social security as well as interim measures to provide some alleviation of poverty until the more positive effects of the restructuring program can be realized.

In the initial phases of implementation, economic restructuring often produces more immediate "pain" than "gain." The ultimate objectives are very difficult to achieve, especially if greater democratization is pursued at the same time. Consequently, in many developing countries a type of social accord--between government, business, and labor--has proven indispensable in this respect.

Tanzania (Governor Kibona) 5/

It is necessary to raise, once again, the issue of program design. We think that there is still room to bring programs up to the point where they take full account of the diverse circumstances among countries seeking support from the Bank and the Fund. For example, programs continue to assume that policies that are implemented will produce quick, positive results. However, experience shows that, mainly due to structural rigidities embedded in our economies, policy instruments often tend to produce unintended negative effects, such as inflation, unemployment, and low levels of investment and production. The need to be more innovative takes on an added dimension in the light of the current climate of political pluralism. It is therefore imperative that national authorities should play the leading role in designing adjustment programs, thus enabling the authorities to "own," and the public to support, such programs.

United States (Governor Brady)

In the Soviet Union and Eastern Europe, we are confronted with the most radical economic change in the post-war period. The search for new values has its costs. These countries have made a conscious decision to switch rapidly from one political and economic system to another. They are literally rewriting all the rules. My visit to the Soviet Union last month brought to mind the Colonial American experience of making a fresh start and creating a new form of government. Over two hundred years ago, the United States began its efforts to create stable institutions--a process which took decades to complete. Yet the Soviet Union is trying to accomplish a similar task in only a matter of months.

Venezuela (Governor Rodriguez) 7/

But growth is a necessary rather than a sufficient condition for economic development. This growth must have a human face; it must truly promote the development and welfare of the vast majority of the population and it must entail a fair distribution of income and wealth in our nations. It makes no sense to talk about high rates of economic growth if the additional income is concentrated in a few hands and is not reflected in real wages, better public services and improved living standards for the majority. This is easy to say, and easier still to repeat in speeches. It is much more difficult to take specific steps that will transform these principles into systematic efforts to turn growth into true development....

Also in support of human resources, it would be desirable for the Bank and the IMF to incorporate in their evaluations of structural adjustment programs, as in the case of project lending, an analysis of social indicators such as nutrition, health, primary and secondary education, use of family planning services, and the like. Social and income distribution indicators should be made an integral part of the daily methodology used by the Bank and the IMF, just as the balance of payments is studied or the environmental impact of projects measured.

11. Other Remarks

Antigua and Barbuda (Governor Joseph) 4/

We urge the international institutions to be sensitive to the needs and particular vulnerabilities of small states. We are told that research costs on small economies are too high, and so, the conditionalities applied to large developing economies continue, unrealistically, to be applied to small states. Small economies, however, almost always exhibit virtual monopolistic and oligopolistic market conditions, and competition cannot always be imported. The Bank and the Fund should consider to what extent special regulatory measures or appropriate state intervention may be

necessary for achieving the levels of efficiency that can sustain external competitiveness in very small economies.

Australia (Governor Kerin)

Australia believes that both the Bank and the Fund have important roles to play in helping to overcome the many challenges facing the world economy, and in fostering a favorable environment for economic growth. The institutions need support from all of us in performing their roles.

The extent of that support in the future will be enhanced by evidence of their effectiveness in implementing programs and projects, and the efficiency with which they administer themselves. They have an opportunity to show the same strength of purpose in pruning activities and in cutting costs as we are being encouraged to have as ministers in our own governments.

Bangladesh (Governor Rahman)

In recent years we have witnessed many changes in international political and economic relations with direct impact on the membership. Membership is growing, and the organizations are becoming truly universal. With courage, commitment, and cooperation, this can be a creative time for the World Bank Group and the International Monetary Fund. Today we see the success of the original Bretton Woods vision for a multilateral world economic order. We also see the challenges: What are these challenges?

First, alongside affluence, poverty and underdevelopment still blight the world. Many low-income countries have been bypassed by the growth of the 1980s. To quote you, Mr. Chairman, the 1980s have been a lost decade to many. The imperative to respond to the increasing resource-flow requirements of the poorest nations is stronger than ever.

Second, environmental degradation caused by economic activities and human interference with nature contribute to the recurrence of natural disasters that face the earth and future generations.

Third, poor nations still face the international trading environment on unequal terms with industrial giants.

France (Governor de Larosiere)

Today, as in the past, governments turn first to the Bretton Woods institutions to help them deal with the new challenges: to ensure strong growth together with price stability, support the transition from centrally planned to market-oriented economies in the U.S.S.R. and Eastern Europe, and to fight for development and poverty alleviation. These have been traditional missions for our institution. They are by no means mutually exclusive. But they must be accomplished in a new world characterized by

rapid and complex changes in the political, geographical, and military environment.

Ireland (Governor O'Connell)

The International Monetary Fund and the World Bank are central to the efforts of the world community to achieve greater growth and development on a coordinated basis. These two institutions provide a forum in which the concerns of all countries can be voiced. They are a powerful force and a powerful influence, and programs supported by them are an essential element in achieving improvements in the world economy. They have demonstrated repeatedly their ability to respond quickly and effectively to difficult situations. Ultimately, however, they can only be as strong as the commitment of the member nations. I would like to pay tribute to their sense of professionalism in the exercise of their responsibilities. We, as Governors, have a duty to ensure that they have adequate resources and proper authority to continue their good work effectively.

Israel (Governor Modai)

The immediate implications for the International Monetary Fund are clear, as many new countries will be seeking to gain membership in this prestigious body of nations and to draw on the enormous experience of the IMF and World Bank to help restructure their economies toward market-oriented, free competitive systems with all of the painful ramifications of such changes.

The IMF and World Bank face an almost impossible task of accommodating the financial needs of the new and existing members such as India, who have been severely affected by the sudden collapse of barter trade between the COMECON ex-members and their traditional trading partners. I strongly believe that this bold effort of economic restructuring should be supported, at least during the transition period, by greater injections from the wealthy industrialized nations as well as the oil-exporting countries.

Italy (Governor Carli)

At a time when unprecedented forces tend to divide peoples, breaking pre-existing regional orders and creating new extraordinary needs, it is essential to reassure the developing world that this will not bring neglect or lower the commitment of industrial nations. Today, there is even greater scope than in the past for strengthening the leading role of the IMF and the World Bank by increasing their resources; this is in recognition that these institutions, together with the newborn European Bank for Reconstruction and Development, are the place where all nations can formulate common economic strategies for the pursuit of the world's welfare.

Japan (Governor Mieno)

I would also expect the international institutions to continue to play an important role in private sector development....

Experience in Asia has shown that although development strategies require a healthy respect for market mechanisms, the role of the government cannot be forgotten. I would like to see the World Bank and the IMF take the lead in a wide-ranging study that would define the theoretical underpinnings of this approach and clarify the areas in which it can be successfully applied to other parts of the globe. I also hope that the fruit of such a study will be applied extensively to development strategies. We are committed to support such a study and its application.

Lao People's Democratic Republic (Governor Keoboualapha)

Our Government steadfastly supports the World Bank and IMF strategies toward the developing countries, especially those that give priority to the development of human resources and economic growth corresponding to the needs and conditions of member countries.

Malta (Governor Bonello Du Puis)

Before closing, I would like to thank the Fund for its continued support in meeting some of our requests for technical assistance and training, notwithstanding the fact that the demand for such assistance from other members has increased significantly in recent years. As I had occasion to mention at last year's Annual Meetings, Malta has so far never sought financial assistance from the Fund, although its resources remain very limited. It has, however, taken advantage of Fund technical assistance at a time of profound change in the Government's approach to economic and financial policy. As the process of reform continues, it is our intention to seek further technical assistance in relevant areas. We are sure that this will be forthcoming and will continue to contribute positively to the development of our country.

Republic of Korea (Governor Rhee)

The two institutions (the Fund and the Bank) are responsible for maintaining order in international financial markets and supporting developing countries that are suffering from chronic poverty and mounting foreign debt, while at the same time stepping up assistance for the Soviet and Eastern European reform efforts.

Sweden (Governor Dennis) 3/

The Nordic countries would like to reiterate that the role of the Fund is to assume the main responsibility, in close consultation with the recipient countries, for the design and monitoring of macroeconomic

adjustment programs. As to the institutions that have primary responsibility for providing advice on structural reform, there seems to be a need for further clarification. It is vital that an agreement be quickly reached on their respective roles and on an appropriate division of labor.

Tanzania (Governor Kibona) 5/

Poverty reduction must, of necessity, be integrated with programs to protect the environment and arrest environmental degradation. There is a serious environmental crisis in Africa that requires renewed efforts by our governments, supported by assistance from the international community. African Governors are of the view that if poverty reduction and sustainable development are to be meaningful, equal emphasis should be given to arresting and reversing environmental degradation.

Thailand (Governor Singhasaneh)

Thailand would like to congratulate the Bank and the Fund for their achievements in the past year as presented in their Annual Reports. In regard to their lending operations and advisory functions, it would be most encouraging if the Bank and the Fund would continue to be flexible in dealing with the fast-changing world economic realities. On this occasion we would also like to highlight again the mandate entrusted to the Bank to principally promote economic development and poverty alleviation in eligible member countries before other concerns. It is, therefore, most important that the Bank and the Fund maintain an even-handed approach in their operations. The needs of the member countries in Asia and elsewhere cannot, and must not, be compromised....

Many countries in Asia, and particularly those in the Southeast Asian group undertaking economic reform, require a high level of technical support and training. The Bank and the Fund are in a unique position to meet such needs. Nonetheless, in order to minimize the costs of our institutions, which are in the final analysis borne by the developing country borrowers in the form of increased charges and which could be quite substantial, when assistance to the Soviet Union is calculated, innovative methods and additional contributions from the donor community should be made to finance such additional assistance. Also, in order to prevent unnecessary overlaps in technical assistance, there should be adequate coordination among all the entities involved; in particular, the World Bank and the IMF have no need to compete with the regional development institution, the EBRD.

Tonga (Governor Fakafauna)

Tonga also shares the Fund's concerns that the integration of the U.S.S.R. and Eastern Europe into the global economy, together with the vast sums needed to reconstruct the war-damaged economies of the Middle East, implies a long period of relative scarcity of capital and, potentially, upward pressure on global interest rates. Minimizing the disruptions these

developments will invariably impart to the world economy is rightly a priority for the Fund; the successful conclusion of the stalled Uruguay Round, through its impact on trade liberalization, would prove very useful in this context.

United States (Governor Brady)

We meet at a turning point in history. Market-based systems that produce better economic performance and higher living standards are sweeping the globe. Countries in every region of the world, now including the Soviet Union, are shifting course in their direction. We can glimpse possibilities previously beyond our view: global economic integration, cooperation, and prosperity.

These developments confront the international financial institutions with an unprecedented challenge. Inevitably, these institutions will be held accountable in an important way for the success or failure of efforts to integrate former command and state-dominated economies into the global market system. Like it or not, that is the reality.

The difficulty of this kind of transformation should not be underestimated. There are no time-tested blueprints for charting the course from a state-dominated command system to a successful market economy. But what is clear is that this transformation is a fundamental, all-encompassing process. Every area of economic activity and policy is involved.

This reality brings with it an important question. Are we up to the task? To rise to this challenge, the international financial institutions must be willing to adapt. They must change their attitudes, broaden their objectives, and improve their assistance capabilities. And they must begin this process right away.

Recently, the IMF and the World Bank have demonstrated their capacity to diversify in response to emerging needs. During and after the Gulf conflict, they moved quickly to provide resources to those countries most seriously affected. The IMF rapidly disbursed resources through the compensatory and contingency financing facility (CCFF) to help countries adjust to the economic costs of Iraq's aggression. The World Bank expanded lending programs and accelerated disbursements to assist sectoral adjustment and to resettle worker refugees....

Some have legitimately raised the question of whether this emphasis on the Eastern European countries and the Soviet Union will result in a diminution of resources to traditional recipients. Both the World Bank and the IMF are well capitalized, and I see no reason why there should be any shortfall in financial flows. Resources will be adequate to the task.

Others have asked whether there will be any reduction of IMF and World Bank technical expertise available to traditional recipients due to a

concentration of attention on Soviet and Eastern European problems. Legitimate traditional priorities should not be weakened. In addition, the gains for world stability should be well worth the price for countries large and small....

The IMF and the World Bank are to be congratulated for their emphasis on the environment. I very much agree with Prime Minister Anand's remarks this morning that we all need a common commitment to the environment for our own sake and for the sake of future generations. In addition, poverty reduction and the role of women in development require stronger emphasis. We must ensure sustained progress on these fronts.

The time has come for the Fund and the Bank to strengthen their support for the private sector....

In closing, allow me to again stress that the international financial institutions must now implement programs for economic transformation and for the ultimate achievement of a unified global economic system. IMF and World Bank activities must adapt and expand as this unprecedented global economic potential comes into view. We must seize the opportunity provided by near universality of membership in these institutions and acceptance of market-oriented principles. Leadership by the IMF and the World Bank can translate shared economic philosophy into shared prosperity.

Vanuatu (Governor Molisa) 6/

In the rapidly changing economic conditions, there is a great need by us to train our nationals, preparing them for the intricate administrative and managerial responsibilities. In this respect, the technical assistance programs of the Bank and the Fund for providing advice and local counterpart training have been most beneficial. The training provided by the institutes of the Bank and the Fund have also proved to be useful for improving our manpower resources. Small island economies would continue to need these facilities in order to improve and maintain their economic performance. It is therefore imperative that the Bank and the Fund continue and accelerate their technical assistance and training programs, now that increasing demands would be forthcoming from new membership, in addition to the continuing needs from old members.

Viet Nam (Governor Cao Si Kiem)

Once again, we call on both the Fund and the Bank to re-establish full financial relations with Viet Nam to help Viet Nam overcome its economic difficulties and facilitate the economic reform and enable Viet Nam to re-enter the world economic community.

Yugoslavia (Governor Vlatkovic)

My fellow Governors, I believe, share my view that both the Bank and the Fund made enormous efforts in 1990 and 1991 to respond to the challenges posed by the dramatic and dynamic events taking place in this period: the Gulf crisis and the impressive changes in the political and economic systems in the Central and Eastern European countries and in the U.S.S.R....

The Bank and the Fund undertook numerous actions, in line with their statutory obligations, to alleviate the existing difficulties, while simultaneously respecting jointly accepted principles in designing, applying, and supporting stabilization programs through structural adjustment. However, when a large number of countries are discarding dogmatic ideologies and starting the fundamental reconstruction of their economies without the chance to thoroughly prepare for such a task, the support modalities of the Bank and the Fund are to be enriched and adapted to these efforts....

I would like, finally, to underline once again that Yugoslavia, irrespective of its future structure, will need strong cooperation with the Bank and the Fund. It is therefore necessary to maintain a permanent dialogue so that the strategy of cooperation can be defined in a timely way to best suit the new circumstances. In the meantime it will be of the utmost importance to design models of technical and financial support, while reaching agreement on the definite structure of the country, which would further reaffirm the importance of cooperation with these institutions.

This is the only way in which the Bank and the Fund will be able to respond quickly to the dynamic and fast political and economic changes in their member countries and offer help that best suits the real needs of the countries concerned.