

U.S. DEPARTMENT OF THE TREASURY

Press Center



Statement by U.S. Treasury Secretary Henry M. Paulson, Jr. at the Development Committee Meeting

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Washington, DC – While the long-run economic fundamentals remain sound, the U.S. economy faces challenges. The housing correction, credit market turmoil, and high oil prices are all weighing on growth and short-term risks are to the downside. However, the fundamental drivers that make the U.S. economy healthy over the long term are sound, including the flexibility, innovation, and entrepreneurship that characterize our country.

These risks notwithstanding, it is important to remember that developing countries are on track to record their sixth consecutive year of average GDP growth in excess of 6%, an accomplishment unparalleled in recent history. Stronger macroeconomic policies, buoyant external demand, low real interest rates, and increased access to private capital markets – over \$600 billion in net private inflows in 2007 – are major factors for strong growth performance.

Recent Market Developments – Challenges and Opportunities Resulting from Higher Commodity Prices

The strong upward movements in world commodity prices in recent years have generally produced large beneficial shifts in the terms of trade for many developing countries. For these countries, we support the recommendations contained in this year's Global Monitoring Report (GMR) that sound management of these windfall revenues is essential to translate this boom into the foundations for higher sustainable growth. This will require establishing and maintaining sound institutions, combined with good governance and public finance management to ensure quality spending.

Governments of countries that are experiencing severe negative shifts in the terms of trade due to higher commodity prices, including higher food prices, may need to implement better energy demand policies and targeted safety net programs while considering longer term measures, such as promoting sustainable energy development and agricultural growth. Existing international facilities can also help mitigate the impacts of negative terms of trade movements when appropriate. Governments, however, need to resist the temptation of price controls and consumption subsidies that are generally not effective and efficient methods of protecting vulnerable groups. They tend to create fiscal burdens and economic distortions while often providing aid to higher-income consumers or commercial interests other than the intended beneficiaries.

Challenges and Opportunities for Low and Middle Income Countries

Despite impressive advances in most developing countries, the World Bank and other development partners have a large unfinished agenda. While many developing countries have been able to capitalize on the opportunities offered by increased globalization and a favorable export environment, a key challenge for the international financial institutions is to assist those countries whose growth is lagging. We agree with the assessment in the GMR that three broad areas emerge as major factors necessary for strong growth: sound macroeconomic policies, favorable private investment climates, and good governance.

We also agree with the conclusion in the GMR that the relationship between trade expansion and economic growth is positive and that trade reforms are critical means to lifting people out of poverty. Reducing barriers to trade in goods and services enables local firms to access low-cost and high-quality services such as telecommunications, transport and distribution services and financial intermediation, thus enhancing their ability to compete more effectively in international markets.

Overcoming Poverty in Fragile States and Post-Conflict Countries

The development challenges are all the more formidable in fragile and post-conflict states. It is increasingly becoming apparent that the international development community needs to be more effective in its efforts to lay the groundwork for economic growth and employment so that the people living in these states believe they have a stake in the future.

The development programs for these countries, which are mostly located in sub-Saharan Africa, will require a challenging mixture of security enhancement, political reform and consolidation, capacity building, and actions to build private sector growth opportunities. While

international aid flows are an important element for successful development, establishment of basic government capacity is required to ensure that aid is used effectively. The Bank Group, working with other members of the international community, has done much in the last year – including in IDA15 – to develop a more effective strategy for promoting development in these countries and we urge swift implementation of these measures.

Environmental Sustainability and Climate Change

The World Bank and its sister institutions face multiple and growing challenges in incorporating environmental sustainability into their development and anti-poverty mandates. For instance, the MDBs are generally financing a shrinking share of investment projects relative to other lenders (especially in International Bank for Reconstruction and Development countries), which reflects positively on these countries economic development and access to private markets but dilutes MDB leverage with respect to the overall environmental performance of projects in those countries.

The Bank needs to continue to emphasize its core mandate while becoming more creative in utilizing the linkages between environmental trends and poverty. Potential areas for this include leveraging its own tools – for example safeguard policies, environmental capacity-building, payments for ecological services, techniques for adaptation to climate change, and monitoring trends in natural capital. Second, the bank should maximize the global as well as local benefits of its work in the areas of environment and climate change.

We welcome the Bank's increasing focus on climate change as it becomes clear that the issue must be addressed in the context of development efforts. However, we realize that addressing climate change is also technically and financially challenging. In this vein we applaud the Bank's work to create the Climate Investment Funds, which we intend to support with a \$2 billion contribution over the next three years through the Clean Technology Fund that will help developing countries invest in a clean energy future.

Conclusion

President Zoellick outlined six strategic themes for the World Bank Group at the Development Committee meeting last fall. As these strategic themes evolve and are incorporated into a strategic framework, the Bank Group will need to make key decisions on where it will focus its resources and how to best coordinate and lead activities with other development partners. We look forward to working with President Zoellick as this strategy unfolds.