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WORLD BANK GROUP

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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **RALPH FONSECA**,
Governor of the Fund for **BELIZE**,
on behalf of the Joint Caribbean Group,
at the Joint Annual Discussion

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Mr. Chairman:

1. It is Belize's honour to speak on behalf of the Caribbean Community countries. We wish to join colleagues in expressing appreciation to the management of the Bank and Fund for the excellent arrangements which have been made for these meetings.
2. We are living in interesting times, Mr. Chairman. Our last two meetings were dominated by the financial markets crisis, and by uncertainty over the potential consequences of that crisis for global economic activity in general and for developing countries in particular. Recent events have shown clearly that there is no place for dogma in the management of the international financial system; and that, particularly with respect to small countries, staff of international financial institutions (IFIs) *must* approach the business of policy advice carefully in the full realisation that small countries can ill afford policy errors. Orderly institutional development and the proper sequencing of reforms will always be important steps in the attainment of policy objectives.
3. Mr. Chairman, we have an ongoing concern about the relative roles of the Bank and the Fund in the emergency response to the financial crisis. We see a primary role for the Fund in the initial response to balance of payments crises, where quick-disbursing assistance is required; while the primary role for the Bank is in addressing underlying structural issues, in promoting long-term development, and in fighting poverty. We are uncomfortable with recent funding responses by the Bank which appear to be indistinguishable from emergency balance of payments support, not least because of the effects on the Bank's ability to discharge its core functions and the effects on financing costs for non-crisis borrowers. We therefore call on the Bank's management and its other members to take necessary action to ensure that the core responsibilities of the two institutions are not blurred, and to ensure that sufficient resources are available for the proper discharge of the respective mandates.
4. Mr. Chairman, we are not satisfied with the results so far of the Bank's work on helping small states identify and deal with their peculiar problems. There is need for assistance for the longer-term development effort, for the medium-term effort to cope with rapid liberalisation and globalisation, and for the associated rapid change in trading arrangements. These developments have been driven from within the developed countries. What we expect, and what we wish to see, is a comprehensive analysis of the situation and prospects of small states, together with an appropriate set of recommendations both to guide domestic policies, and to re-focus the operations of

the international institutions to the peculiar circumstances of these small states. We wish to emphasize the need for broad and deep consultation with these small states during the course of the review process to ensure full ownership of the analyses and recommendations by all parties. We also feel that there may be a need for consultation with the main trading partners of these small states. We recognise that this process may take some time, and we in the Caribbean do feel that the time should be spent in the interests of producing a meaningful and functional report which would have had the benefit of extensive consultation.

5. We are very concerned about this issue, Mr. Chairman, because of a recent experience with the Fund on a study to review adjustment policies in the Caribbean. We must express our disappointment that the Fund was unable to be fully engaged on this project despite assurances from management to our heads of government.
6. Given the critical importance of trade to our economies and the difficulties a number of our Community members face as a result of the dramatic changes in the international trade regime, we warmly welcome the arrangements being proposed by the Bank to assist developing countries to evaluate and restructure their situations. With the Bank's assistance, we will be able to take advantage, on a continuing basis, of the opportunities to make representation in international trade fora. It is no secret that equal access does not always mean fair access. The extent of economic openness of Caribbean economies is such that any change in trade has immediate and significant impact on fiscal performance and on every other aspect of economic activity. Unlike developing countries with large domestic markets, the issue for us does not involve the appropriate arrangements for opening the domestic economy; we are already highly open. The issue is how to develop and maintain the domestic flexibility to cope with compressed product cycles and increased global competition, and how to reduce public sector reliance on trade for revenue while maintaining, and perhaps even increasing, our openness.
7. However, we are happy with the recent changes within the Western Hemisphere Department of the Fund to facilitate a more meaningful focus on the Caribbean, and we are also happy with the arrangements which have been proposed for more meaningful dialogue with the Caribbean Community and its institutions as a region. We look forward with great expectation to the first steps in this process, and to the completion of the restructuring arrangements in order to bring the Fund's work on all of our small countries more effectively together. We welcome the Bank's work on the Comprehensive Development Framework, with its implications for a new relationship between the Bank and developing countries and its emphasis on governance and capacity building.
8. Mr. Chairman, the implications for the Caribbean of the WTO ruling on Bananas and the response thereto continues to be a matter of great concern to our governments and people and will have a gravely negative impact on the strength and vibrancy of the regional economy. We urge the international community to recognize the

considerable effort that we have made to restructure this industry to face competition. Simply put, Mr. Chairman, any settlement arrived at that does not provide an adequate transition period is unacceptable. At a minimum, we expect that there will be a tariff rate quota and appropriate licensing system.

9. We should note in this connection, Mr. Chairman, that the OECD response to our efforts to exercise our very limited diversification options and to develop an international business sector has caused us great consternation and alarm. The potential consequences of the OECD Report on Harmful Tax Competition are particularly troubling as services, including financial services, were seen by the Caribbean as a feasible alternative. Our governments have previously been encouraged by the IFIs to diversify out of commodities and import-substituting manufacturing because of adverse terms of trade effects and the small size of the domestic market, respectively. Destruction of our international financial services sector would have not only dire direct income and employment effects but also severe social consequences. In addition, we are forced to ask the question: what would the developed countries have us do for a living?
10. Tax competition needs to be viewed holistically, involving all sectors, activities, incentives and subsidies, including policy actions at all levels of government, both federal and state. Without relinquishing any sovereignty, the Caribbean will continue to cooperate with genuine attempts to strengthen the international financial system. However, the process needs to be *fair*, taking into account the special circumstances of small economies.
11. On the issue of debt relief, we generally welcome the G-7 initiative and the enhanced HIPC to assist countries where development and poverty eradication efforts are severely hampered by high debt service obligations. However, we need to point out that in CARICOM, members are both creditors and debtors. In this regard, we would urge that consideration be given to this fact in the deliberations regarding relief to members to ensure that relief granted to any one country should not be to the detriment of another. As far as possible, appropriate safeguards should be considered to cushion any negative impacts. We also need to point out that there are countries which, while not qualifying for debt relief under HIPC, also carry significant debt burdens which adversely affect their poverty reduction efforts. We would like to see a mechanism designed to assist those countries' efforts as well.
12. We want to conclude by saying that we have little to be complacent about. Recovery from the emerging markets crisis is fragile in some countries, and is yet to start in others; and in many countries, including those in the Caribbean, there is significant and growing poverty. It is clear that an urgent and major task still lies ahead, work that will tax our capacities and inventiveness to the limit. It is important therefore, that the relationships between Bank and Fund staff with the Caribbean be

strengthened and reinvigorated in order to deal with the challenges ahead. Finally, let us rededicate ourselves to the work of development – to economic growth with a human face that will redound to the benefit of so many of our people who face the daily reality of hardship and suffering.

I thank you.