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THE WORLD BANK'S ROLE IN ASIAN DEVELOPMENT

Remarks

By

A. W. Clausen, President
The World Bank

before the
Asia Society

Washington, D.C.
December 8, 1981

Thank you, Bill, and good evening ladies and gentlemen.

I am pleased to have this opportunity to visit with you about the World Bank's work in Asia, and to take your questions.

As Bill has pointed out, I had the good fortune in my years at Bank of America to get to know a number of the countries in Asia, and particularly those in the Pacific Basin. As a matter of fact, seven of the first eight overseas branches of Bank of America took root within that region more than 30 years ago.

Considered as a "regional trading area," the Pacific Basin -- that is, the United States and Canada, the countries of East and Southeast Asia, and Australia and New Zealand -- now accounts for about a third of the world's exports and imports. As a region, only the European Common Market represents a larger share of world trade. And the economic activity in the Pacific Basin is accelerating at a considerably faster pace than in Europe, or indeed than in the world as a whole.

So you can understand my interest in the economic growth of Asia in my former career as a private commercial banker.

Now, of course, I have taken on a different responsibility as the President of the World Bank -- heading a global organization of 141 member countries. But one of the satisfactions of my new position is that it is going to keep me in close touch with what is going on in Asia. And the institution itself -- at once a unique international bank, and at the same time the world's largest multi-lateral development agency -- has had, and will continue to have, a creative and catalytic role in the economic progress of a wide spectrum of Asian countries.

Of course, here at the Asia Society, I needn't remind you that no region of the world has greater historical, cultural, and social diversity -- or that it is the area that contains the greatest concentration of individuals on earth.

You know that, and indeed it is through your Society's programs and projects that the immense variety and beauty of the Asian heritage has become better understood here in the United States.

It is presumptuous -- and indeed just plain impossible -- to try to sum up Asia in any simple set of characterizations. But what I would like to do this evening is to touch on two or three facets of what is transpiring today in Asia -- looked at from the vantage point of the World Bank.

And the first point I would like to stress is the immense economic progress that a number of societies in Asia have made over the past two or three decades.

Of course, we all know the story of Japan.

A country without great natural resources, without oil, without much land for the size of its population; a country that was economically prostrate at the end of World War II, and today a country that has achieved the third largest gross national product in the world.

Well, there are many reasons for Japan's incredible economic recovery and success, but from the World Bank's point of view Japan is, in its own unique fashion, a prime example of what we would like to see happen elsewhere in Asia -- and in the developing world at large.

For in just 20 years' time Japan moved from being one of the Bank's largest clients to one of the Bank's largest backers. Japan is, so to speak, the World Bank's "model graduate": a graduate from a principal borrower of development capital to a principal supplier of development capital.

Between 1953 and 1966, the World Bank made 31 loans -- loans totaling \$857 million -- to Japan. Among other important projects, these loans helped finance the Tokkaido Railway -- the famous "Bullet Trains" -- and the Tokyo-Kobe highway.

In 1970, we began a borrowing program in Japan, which has become one of our largest throughout the world, now approximating \$5 billion. So there is no question that the relationship of the World Bank and Japan over the past two decades has not only been mutually beneficial, but has helped serve the needs of the developing countries everywhere.

But there are other important "graduation" stories in Asia as well.

Korea, Thailand, and the Philippines have all graduated from IDA, the International Development Association -- the World Bank's affiliate organized in 1960 to assist those nations that could not afford to borrow for essential development projects at conventional rates, and for sound economic reasons required concessional financing -- and these three countries today are valuable trading partners with the developed nations.

Even nations in Asia which still need concessional lending -- India, for example, and Bangladesh, and Pakistan -- have made very impressive gains in domestic food production and these three large societies, together with Indonesia, may be approaching an end to chronic food deficits, and a beginning of near food self-sufficiency.

India is a particularly interesting case. In the early 1970s it was importing over 10 million tons of grain each year. The outlook for significantly increasing domestic food production seemed doubtful, and some observers suggested that efforts to improve the situation were indeed a waste of resources.

And yet in the second half of the Seventies, India became largely self-sufficient in foodgrains.

What had happened was this:

A radically new set of techniques in farm productivity began to gather momentum in the Punjab and adjacent areas in northwestern India. This is the region which supplies about 90% of the nation's wheat and over 60% of the rice traded across state boundaries. Between the mid-1960s and the late 1970s, the output of these grains tripled.

This was the now-famous "Green Revolution" technology, which combines controlled use of water with improved seeds, fertilizers, and appropriate mechanization. As yields expanded, more labor was employed, and farm wage rates for landless workers are now double those elsewhere in rural India.

All this happened because small farmers were willing to adopt the new technology, and they did so at about the same rate as the larger producers. What made that possible were sensible government policies and investments that assured the feasibility of the new package of techniques. The Indian government -- with World Bank assistance -- implemented a number of basic policy measures:

It launched a program of land consolidation that resulted in contiguous small-farmer holdings with established tenure.

It built roads linking villages and market towns.

It arranged for market cooperatives to collect levies on the amounts of grain traded, and to use these funds to finance the new roads, and improved market facilities.

It introduced a system of grain procurement built on traditional arrangements and middlemen, rather than attempting to replace them with a government bureaucracy.

It deregulated the distribution of fertilizer, which increased its use per hectare threefold in ten years.

It announced minimum procurement prices before planting, thus removing much of the farmer's price uncertainty.

And it provided credit for the small farmers to get started. As their incomes from the higher yields grew, these farmers predictably reinvested much of their profit in their own land. The result was that private outlays for better water control expanded, and the area irrigated by modern pump wells increased almost tenfold between 1964 and 1975.

Now the World Bank has been a part of all of this, in partnership with the Indian government, and while we in the Bank cannot claim the credit for the food success in India, or in other parts of Asia or elsewhere in the developing world -- that credit belongs to the entrepreneurial spirit of the farmers themselves, and to the practical policies of their governments -- the fact is that we have been deeply involved, and we are going to continue to be deeply involved.

Agriculture and rural development is the largest single sector that the Bank lends for -- we've committed more than \$12 billion to it in the last ten years, and today that sector

represents some 30% of our total lending. We're going to continue to give that sector priority, because in Asia -- as elsewhere in the developing world -- agriculture and rural development is absolutely fundamental to economic progress.

But if the progress towards greater self-sufficiency in food in Asia is encouraging -- and it is -- the fact remains that most of the countries in the region have been hit hard by the overall strains in the global economic environment of the last few years.

Korea, the Philippines, and Thailand, for example, lost some 4 to 6% in their real incomes in the recent past.

They have suffered, as have so many developing and developed nations alike, from international economic conditions characterized by high inflation, rising borrowing costs, sluggish growth of key export markets, current account deficits, and deteriorating terms of trade.

Significantly, some of the countries that have weathered the storms best have been those that have a vibrant private sector, and that have sought to develop a strong foreign trade orientation. The Bank is, of course, encouraging this simply because we have seen in Asia, as elsewhere, that such approaches work.

The rise in the cost of energy has, of course, been a significant factor in recent Asian economic trends. Indonesia and Malaysia -- the two oil exporters -- have had less difficulty with balance of payments problems. Indonesia has cut its domestic inflation rate in half from 30% to 15%, and Malaysia is the only large country in the region that has succeeded in keeping inflation below the double-digit level over the past several years. Last year it stood at 7%.

But the fact is that many governments in Asia are coming to realize not only the critical importance of effective investment strategies in a period of scarce capital resources, but of a sound, practical policy framework for domestic development in an economically troubled international environment. As a result, several of these countries have asked the Bank for technical assistance in planning and institutional reform.

At the request of Thailand, for example, the Bank is advising the government on a number of key issues in the management of development programs, including functional and geographic decentralization of decision-making, and the strengthening of the links between the planning and budgeting processes. And both the Philippines and Indonesia have sought the Bank's technical assistance in related management problems.

Now, I want to add a word or two about China.

As you know, in May of last year the Executive Directors of the Bank, representing its member countries, decided that the People's Republic of China should represent China within the World Bank Group. This meant that the population of our developing-country membership increased by almost 50% -- that is, by nearly a billion individuals.

The Bank and China have now completed the first year of their relationship, and, as we had agreed, we sought to achieve two important objectives in that initial period.

The first was for the Bank to emphasize economic and sector work in order to understand the chief factors that have determined the economic development of China over the last three decades. And the second was to start to prepare a small group of high-priority projects.

Both these objectives have been achieved, and the Executive Directors approved the Bank's first loan to China -- for a university development project -- this past June. Preappraisal work on two other projects -- one in agriculture, and the other in port development -- have now been completed.

China, of course, has an immense development potential. It has substantial energy resources, a largely self-sufficient and diversified production base, and a highly literate and disciplined population.

During the past 30 years most of its development efforts have been directed to two goals: industrialization, with a particular emphasis on heavy industry; and the elimination of the worst aspects of massive poverty.

The chief constraints of its development strategy have been a severe shortage of cultivatable land, and a high degree of international isolation.

Efforts to reduce widespread poverty began with an initial phase of land redistribution, followed by agricultural programs and provision of essential social services -- for the most part using local resources and initiatives.

Despite the slow growth of agricultural production in relation to population, China's success at reducing poverty has been impressive. At the same time, a heavy infusion of centrally mobilized capital led to rapid industrialization, though most of the technology dates from the 1950s.

Growth of GNP per capita -- at 2.7% per year from 1957 to 1979 -- has been well above the average for low-income countries, though given China's emphasis on investment growth, consumption has increased much more slowly than total output.

But the society's most remarkable achievement has undoubtedly been to meet far more of the basic needs of its low-income groups than has occurred in other poor countries. And during the past decade, China has also been quite successful in reducing its population growth.

The Bank's introductory analysis of China's economy -- covering its past development performance, its economic system, its medium-term prospects, and its energy, agriculture, education, transport, and industry sectors -- was completed in May of this year.

This analysis was, in turn, the basis for extensive discussions with the government. And general agreement has been reached on an operational country work program that will address the key constraints of lagging energy production, inefficient use of energy in the industrial sector, limited agricultural land, lack of foreign exchange, and the shortages of trained manpower.

China, of course, together with the other low-income nations of Asia, is going to need substantial concessional assistance -- and it is in the developed nations' long-term self-interest to make that assistance available.

IDA -- the International Development Association -- the World Bank's own affiliate, is the world's principal source of effective, high-priority, tough-minded concessional development assistance. And it is important for all of us to grasp that IDA -- which came into existence in 1960 largely at the initiative of the United States -- has been an immense success over the past 20 years.

While IDA is a vital part of the World Bank Group, and was created to assist its member countries which do not yet have adequate creditworthiness to borrow on market terms, it remains an independent financial entity, separate from the original World Bank institution: the IBRD, the International Bank for Reconstruction and Development, which does lend at near market terms.

IDA is fully responsible for the costs and risks of its own operations, but there is absolutely no difference in standards between an IDA project, and an IBRD project.

The same professional staff in the World Bank negotiates and administers IDA projects; the same high rates of economic return are insisted upon; the same supervision and international competitive bidding for procurement are rigorously applied; and the same full government guarantees of repayment are required.

For an IDA project to be approved at all, it must have an estimated rate of economic return of at least 10% in real terms.

So IDA is not a give-away program, or a welfare agency, or a philanthropic society, or a soft-hearted and soft-headed "soft-loan window." There is nothing soft about IDA at all. It is a hard, tough, realistic development agency doing a hard, tough, realistic job. And doing it well.

I say that as a former commercial banker, with 31 years of experience in a tough, competitive banking marketplace -- and with no personal reputation, I think it's fair to say, for banking softness.

IDA is having difficulties in the U.S. Congress, as we all know -- but, in my view, it is having difficulties for the wrong reason.

If IDA were just a kind of international entitlement program -- just a relic of a more prosperous economic period in the past when the United States felt more generous -- then I could understand that in a time of budgetary pressures it might make good economic sense to cut it back, and pare it down, and string it out in a severely reduced form.

But IDA is not an international entitlement program. And the basic issue is not generosity. On the contrary, IDA is a hard-headed investment in international trade, and economic growth, and greater global stability and cohesion, and the U.S. ought to live up to the international agreements it has made with respect to IDA because it is in its own best self-interest to do so.

And that is true of every donor country that contributes to IDA. And there are 33 countries who do.

I'm bullish on IDA, not simply because I'm the President of the World Bank, but because I have spent my working life in the world of investment, and I know what sound, high-priority, carefully managed investment can do to transform an economy.

There are many low-income economies in Asia today -- as well as elsewhere in the developing world -- that can transform themselves faster than either they or others may think possible.

That's happened many times in the last 20 years -- confounding everyone's expectations. And it's going to happen again in the next 20 years. Don't count the poor countries down. And don't count them out. Every society, no matter how poor, has untapped potential. And every society, no matter how plagued with

difficulties, can come up with startling surprises. Especially if it looks outward, especially if it battles against its own -- and other countries' -- temptation to hide behind a security blanket of protectionism, and especially if it promotes and unleashes the pent-up potential of a creative and competitive private sector.

But all of that takes investment. Mostly, of course, domestic investment -- and not just the investment of savings, but of spirit and drive and imagination and much hard work!

And it takes some external investment as well -- and on terms that make economic sense. IDA makes that kind of sense. And Asia has proved that many times over in the last two decades.

Now, finally, I want to say just a brief word about the World Bank's other affiliate -- the IFC, the International Finance Corporation.

IFC is 25 years old this year. It was set up in 1956 specifically to act as a financial catalyst in helping to fund private-enterprise ventures in our developing member countries -- ventures without government guarantees, but with a high development component.

Now IFC doesn't try to tell any country what kind of an economic ideology it ought to have -- history demonstrates a country's citizenry has got to make up its own mind about that -- but IFC doesn't hesitate to point out what experience teaches.

And in the post-World-War-II period, the experience is clear enough.

Those countries have demonstrated the best economic performance -- in Asia and elsewhere -- that have encouraged their private sectors. And that's not surprising, for what it really means is that they have opened up opportunity for the exercise of a human characteristic that is universal -- though unfortunately still latent in many parts of the world: the entrepreneurial energy of their own peoples.

IFC invests both equity and loan financing in private-sector projects in its developing member countries; it supports the development of their capital markets; it advises them on policy matters which have an impact on business activities; it helps raise funds from the international markets; and by acting as a neutral partner in what are often complex international negotiations, it helps to put together joint investment packages.

What is unique about IFC is that it can promote private-sector investments in ways that other institutions cannot.

Unlike purely commercial financial institutions, it judges potential ventures in terms of both financial viability, and their priority contribution to the economic development of the country in question.

Unlike other official development institutions, it participates directly with the private sector in both the developed and developing worlds.

And unlike both types of institutions, it provides both equity and fixed-rate financing.

IFC fills specific needs of both member countries and private investors that neither type of institution can fully address. Thus it has gone places where other institutions would not go; has taken risks others would not accept; and has launched initiatives when others would not act.

IFC has been very active in Asia -- and not just in countries like Korea, and the Philippines, and Thailand which are widely recognized as societies with vigorous private sectors -- but in countries like Bangladesh, and Sri Lanka, and India which sometimes are not thought of in that light.

The truth is that the private sector is blooming in many countries of Asia, and it is going to grow -- not decline.

* * * * *

Ladies and gentlemen, when I was a school boy growing up in a very small town on the Mississippi river in Illinois, Asia seemed to me to be immeasurably distant, and impossibly mysterious.

I'm afraid that Hollywood, and the local Saturday afternoon matinee at the movies may have had a lot to do with that impression.

But I was lucky. I ended up in a career that has taken me very often to Asia -- and still does. And I found out that Asia was neither immeasurably distant, nor impossibly mysterious.

I found out that what it really is ... is endlessly fascinating.

But you know that. Or you wouldn't be members of the Asia Society.

I appreciate your inviting me here tonight, Bill (Ambassador Gleysteen). And now I'm ready to take any questions you may have.

Thank you very much.