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Opening Remarks

As Delivered

By

A. W. Clausen, President

The World Bank

and

International Finance Corporation

before the

National Press Club

Washington, D.C.

December 5, 1984

Thank you, John. And good afternoon, ladies and gentlemen. I'm really very pleased to have this opportunity to meet with you.

The World Bank's mission is to reduce poverty and to secure economic growth in the developing nations of the world. This is a noble mission -- a mission long supported by the American people. Over most of the past several decades, the people of the world's developing countries have made rapid economic and social progress. But the global recession has been crippling to many of these countries; poverty has become more widespread and severe again. The World Bank's mission is far more challenging today than it has been for several decades.

Let me begin my remarks with our year-end estimates of the economic situation in the developing countries. Then let me focus on the two most difficult challenges facing The World Bank -- the grim situation in Sub-Saharan Africa and the still smoldering issue of Third World debt.

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On the whole, the developing countries did better than expected in 1984. They averaged real economic growth of 3.4 percent. Population is growing over 2 percent a year in the Third World, so income per capita went up only a little over 1 percent in 1984. But in 1983 average per capita income in the developing countries didn't go up at all, and in 1982 it declined.

This brightening picture is partly due to the efforts of the developing nations themselves. They have, in general, coped remarkably well with economic adversity. In the midst of recession, many countries have made painful adjustments to encourage future growth -- shifting investment and workers into export industries, for example -- and these adjustments are starting to bear fruit.

The strong recovery in the industrial countries, especially in the United States, has also been crucial. The developing countries have been able to expand the volume of their exports by nearly 8 percent this year, compared to 5 percent in 1983 and to zero growth back in 1982.

Unfortunately, the good news for 1984 does not mean that the Third World has fully recovered from the recession. The industrial economies are likely to grow more slowly in 1985, and that implies slower growth for developing-country exports. It's not clear yet whether the United States will get its deficit under control and further reduce interest rates, and that, of course, will make a big difference to heavily indebted developing countries.

Parts of the Third World are, even now, still in the throes of economic crisis. The Third World consists of various distinct poles of economic activity, and averages for the Third World as a whole obscure wide economic differences among the developing countries.

Nearly all the export-oriented countries of Pacific Asia have recovered strongly from the recession. And most of these countries have managed to maintain efforts to reduce poverty despite the macroeconomic problems of the last few years.

China, India, and the rest of South Asia were relatively unaffected by the global recession, and they have continued their economic expansion in 1984. Their impressive progress is especially heartening, because China and South Asia include most of the world's poorest people.

The developing countries of the Middle East, Southeast Europe, and North Africa are also maintaining positive growth in per capita income.

In Latin America, economic production finally started expanding again in 1984. But economic growth was still less than population growth, so, on a per capita basis, income continued to fall.

Many people in this country don't realize how severely the debt crisis has disrupted life in Latin America. Average per capita income has fallen back to the level of 1978 in Mexico, and to the level of 1976 in Brazil. In Argentina, average per capita income has fallen back below the level of 1970.

But even the traumas of Latin America seem tolerable by comparison with the disaster in Sub-Saharan Africa.

We all have vivid images in our mind of the present famine in parts of Africa. But it is more difficult to imagine the slow, relentless process of economic decay that has brought Africa to the point where drought is provoking the tragedy -- not only of hunger and malnutrition -- but of mass death caused by starvation.

Millions of families at the subsistence level have faced increasing hardship over the last 10 to 15 years. Farm prices have lagged far behind inflation. Rural families in extreme poverty have had to find ways to cut back even further, and agricultural production in Africa has not kept pace with the growth of population.

In many places, clinics aren't stocked with medicines anymore. Trucks don't run for lack of spare parts or because the roads have become impassable. Water pipes, where they exist, don't get repaired.

Economic decay has added to the strains on government, and political instability has brought additional hardship. One in every 200 Africans is a refugee today.

Under these circumstances, the drought that began in 1982 has provoked famine. As many as 100 million people in Africa are now severely hungry and malnourished. That's almost one person in four.

And even if rainfall does return to normal, food production per capita is likely to continue its long-term decline. The downward trend line of the last 15 years suggests that, even with normal rainfall, per capita food production will be back to the miserable level of 1984 by 1988. Even under optimistic assumptions about the world economy and domestic policy reform, we must expect incomes to continue declining in Africa for the forseeable future.

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So let me turn to what we are doing -- we in The World Bank -- and what needs to be done by all the players in response to these two areas of challenge -- the appalling situation in Sub-Saharan Africa and the debt problems of Latin America.

The outpouring of concern about the African drought has been gratifying. The international community must act -- urgently -- to get food to the people in Africa who need it. And we must also act -- with equal commitment -- to reverse the process of economic decay in Sub-Saharan Africa.

The World Bank is not a disaster relief institution; it is a development institution. But in response to the immediate crisis, the Bank did contribute $2 million from its administrative budget to the relief work of the World Food Program; this contribution is unprecedented in the Bank's history.

The Bank is involved in virtually all the drought-stricken countries in Africa on an ongoing basis. In response to today's emergencies we are, to give you a specific example, financing the purchase of 7,000 tons of emergency animal feed in Niger and Mali. We are also financing an emergency vaccination campaign in Burkina Faso (formerly Upper Volta). We have a staff mission in Ethiopia at this very moment working on a fast-disbursing drought emergency project.

And in order to get economic development in Africa moving forward again, The World Bank has proposed a program for intensified and coordinated action -- a joint action program. The governments of Africa and the governments of the industrial countries have come out in favor of the program. President Reagan strongly endorsed the Bank's action program at our recent Annual Meetings here in Washington.

Help begins at home, and the action program stresses that policy reforms by the governments of Africa themselves are basic to renewed economic progress. Many African nations maintain unrealistic exchange rates; that discourages exports and stifles international trade. Price controls and subsidies have biased most African economies in favor of urban consumers, at the expense of rural producers. African farmers must be given more incentives to produce. That means freeing agricultural prices. It means allowing the private sector to compete with the government monopolies that dominate trade in many, if not most, farm products.

There is no way to win the battle for Africa's development if African governments sit on the sidelines. Policy reform is absolutely necessary, and a growing number of governments now realize that and are attempting to put into place economic policies that are more conducive to growth and to a more efficient and rational allocation of scarce indigenous resources.

But Africa cannot extricate itself from today's morass without international assistance. At The World Bank, Africa has been our top regional priority for some years, and we now propose to assign even more staff to Africa and to open more offices in Africa.

The World Bank's action program also stresses ways of getting better value for money from international assistance. We are proposing more rigorous methods of coordination among the many bilateral and multilateral agencies involved in Africa. We are urging steady support for programs of public health, population and education, and we would like to see that coupled with increased aid to support those governments that are willing to energetically pursue programs of policy reform.

Net capital flows to Sub-Saharan Africa are declining drastically. Net private investment has plummeted, and official capital flows to Africa are declining, too. This is hardly an appropriate response to the development crisis in Africa.

The bulk of World Bank lending worldwide is on non-concessional terms. But few countries in Sub-Saharan Africa are creditworthy for much non-concessional lending. They rely on concessional assistance. The World Bank's concessional affiliate is called the International Development Association (IDA). IDA provides credits to the poorest of the poor countries for 50 years at zero percent interest. IDA's resources are contributed by 33 donor governments. They decide jointly on the level of IDA funding, and they share the burden roughly in proportion to their ability to pay.

We are exploring with donor governments the possibility of a special facility for Africa. This Africa facility would supplement the very limited resources available to IDA. Each donor nation would decide independently and voluntarily on its contribution to the Africa facility; we need not hold Africa hostage to the tradition of "burden-sharing" among the donor nations. We would use the Africa facility among the poorest African countries. It would allow The World Bank, working closely with other development agencies, to support those African governments that are willing to move ahead with policy reforms. I am pleased to announce that several governments have already indicated their intention to donate to this facility.

Mr. Abdlatif Al-Hamad, a man of great experience in international development, has agreed to assist with the financial aspects of The World Bank's action program for Africa. His previous positions include Minister of Finance of Kuwait and Director-General of the Kuwait Fund for Arab Economic Development.

We have achieved remarkable consensus among our member countries on the general outline of what must be done in Africa. But we now need vigorous and coordinated action -- by the governments of Africa, by international institutions like The World Bank, and by the donor nations -- to turn the agreed program into a reality. Otherwise, we must expect deepening misery and recurrent famine in Africa -- quite possibly, a living nightmare of desperate proportions.

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Now let me turn to the problems of the middle-income developing countries with large debts, most of them in Latin America.

All four of the major troubled debtors of Latin America have now arranged rescheduling agreements with their creditors. Argentina did so just this week. Mexico and Venezuela have gone a step further and are finalizing multiyear rescheduling agreements. Brazil is also working toward a multiyear agreement.

But the debt overhang still weighs heavily on Latin America; it continues to pose risks to the stability of international financial and political relations. And let me stress that the debt problem can only be finally resolved by development. Only if the indebted countries recover growth, especially export growth, will they be able to meet their debt obligations and, in time, to recover creditworthiness.

For renewed development in the indebted countries there must be continued economic expansion in the industrial countries. A roll-back of protectionism and lower interest rates are also important to economic revival in the indebted countries. And we should pull out all stops to encourage additional international investment in the developing countries.

The World Bank is directly involved in helping the heavily indebted countries get development moving forward again. We have responded quickly, increasing our disbursements to Latin America from $1.8 billion in our 1982 fiscal year to $2.9 billion in our 1984 fiscal year.

We have provided special financing to allow debt-burdened countries to finish half-completed, priority investments. We increased our percentage of the financing for a large number of ongoing projects in Brazil, for example, making special efforts to maintain the momentum of poverty-related investments. We have also been encouraging broad reforms in economic policy to stimulate renewed economic growth. That's been the focus of our economic analysis and policy discussion with governments, and we've backed it up with lending. In Mexico, for instance, we committed $350 million in support of a package of reforms to help accelerate the liberalization of international trade -- truly a growth oriented project.

The World Bank has another affiliate, the International Finance Corporation (IFC). IFC works entirely with commercial enterprises. The debt crisis has wreaked havoc in the private sector in the indebted countries, and the IFC has been active in helping to restructure firms that are in trouble but still basically sound. The IFC is also investing in projects that will improve Latin America's balance of payments by developing its natural resources -- helping Brazil, for example, to make wider use of alchohol as a substitute for imported petroleum.

The recession that caused the debt crisis of 1982 and 1983 did massive damage to some of the world's most promising economies. The crisis has eased now, but the task of rebuilding the momentum of development will take years of effort by the indebted countries -- and, I would suggest, also new initiatives from the major industrial powers.

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The challenges of Third World development at the close of 1984 are indeed formidable. But they are far from hopeless! The development successes of the last generation -- and the remarkable gains being registered in much of Asia right now -- make us optimistic. Efforts to restore the momentum of development in Africa and Latin America can also succeed.

In closing, let me urge that measures to promote economic and social development in the Third World be considered an integral part of current efforts to enhance the national security of the United States and the other industrial countries.

Most of the flashpoints of East-West conflict have been in the developing countries. Some of the political explosions of recent years, including the turmoil in Central America, are rooted, in part, in skewed income distribution, rapid population growth, and recession.

Measures to promote economic growth and to reduce poverty in the developing countries -- especially in Latin America and Sub-Saharan Africa -- reduce the risk of more Ethiopias, more Irans, and more El Salvadors in the future.

In 1985, worldwide military spending will, for the first time, exceed one trillion dollars. That is far more than the total income of the bottom half of all humanity! Compared to what nations are spending on military means of maintaining security, it would cost relatively little to expand the opportunities for poor people around the world to raise their standards of living.

Thank you. I look forward to your questions.