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*The Asia Society - New York - June 2, 1982*



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The Asia Society, New York, NY. June 2, 1982

ECONOMIC PROGRESS AND PROBLEMS IN ASIA

Remarks by

A.W. Clausen  
President, The World Bank

before the

Annual Dinner of the Asia Society

New York

June 2, 1982

Thank you and good evening, Ladies and Gentlemen.

It's a very great pleasure to join all of you in this evening of Asian culture and cuisine -- and to lend our presence in supporting the important activities of the Asia Society. Certainly everyone here is keenly aware of the significant contribution made by the Asia Society to this country's understanding and appreciation of Asian culture and development.

My first visit to Asia as a representative of The World Bank was early this year...in January. The poverty one sees in much of Asia is always disturbing, but we also must confess to being impressed by the economic vitality we witnessed at the village level in northern India and in Pakistan.

We could see new systems of irrigation and drinking water, improvements in rural housing, and -- most important -- widespread evidence of hope and initiative.



The World Bank has some 500 professionals working on its programs in Asia. They confirm what we saw in the microcosm of the villages we visited -- that Asia, although still deeply enmeshed in the plight of poverty, is building for a better future.

Many people in this country aren't aware of the economic progress which is being made in Asia. Good economic news from any quarter is scarce these days. And although people may be somewhat familiar with the success stories of Japan and Korea, most of Asia is still stereotyped in terms of hopeless poverty.

Tonight I'd like, first, to examine the positive economic achievements of the main groups of Asian countries. The situation is far from hopeless. Progress has been made.

Of course, enormous problems remain, and the economic problems of Asia are particularly intense this year. So I want to report to you also on the difficulties Asia is facing just now.

And finally, I'd like to explain what assistance The World Bank can provide, especially at the present moment.

In reviewing the achievements of Asia, let me begin with the economic "super-star" -- Japan.

Japan now produces 10 percent of all the world's economic output. It was producing only 2 percent in 1955...just 26 years ago!

Japan's per capita income is now equal to about 80 percent of U.S. per capita income. In 1955, Japan's income level was about 20 percent of the U.S. level.

And after the oil price hike of 1973, Japan managed to adjust without falling into recession. Its growth rate for the seventies was higher than that of any of the developed countries of North America or Western Europe.

Then there's a group of middle-income countries in East and Southeast Asia -- Korea, Thailand, the Philippines, Malaysia, Indonesia, and the city-states of Hong Kong and Singapore. These countries maintained impressive growth rates -- averaging from 6 to more than 10 percent a year -- over the last decade.

The more advanced of these countries along Asia's Pacific rim seem to be moving toward their own versions of the Japanese economic miracle. Like Japan, they've aggressively expanded their manufactured exports. More and more, they are competing against Japan, especially in labor-intensive industries. In fact, they are starting to remold the global distribution of industry.

The middle-income countries of East and Southeast Asia are making impressive gains in agriculture, too. Virtually without exception, they have increased their agricultural output by at least 4 percent annually for the past two decades.

These countries have also shown themselves adept in adjusting to adverse global conditions. The countries which import oil had to borrow extensively in the mid-seventies, but, at the same time, they also took measures to boost exports and restrain energy imports. They raised prices for fuel and food -- tough decisions, but crucial in adjusting to new global realities.

I'll return later to the new adjustment challenge facing many Asian countries now, but first let's review what's been achieved to the northwest -- in the People's Republic of China.

Our information on the Chinese economy has improved dramatically in the last few years. We have learned, for example, that China's per capita income seems to have been going up even a bit faster than the average for the middle-income countries along Asia's Pacific rim!

China's accomplishments over the last generation in reducing poverty -- on a vast scale -- are without precedent.

China worked on both sides of the fragile equation between people and food -- bringing its birth rate down dramatically and also increasing food production somewhat. Then, too, an industrial base has been established in China.

In recent years, the Chinese government has shifted the focus of its concern to economic efficiency -- decentralizing decision-making, for example, and relying more on economic incentives. Production prices are being rationalized, and, at the same time, China is trying to improve standards of consumption. China is expanding its international commerce, too.



Moving on to review the economic experience of South Asia -- India, Pakistan, Bangladesh, Sri Lanka, Nepal, and Burma -- we note generally less economic progress, certainly if measured in terms of per capita income.

But South Asia can also claim major progress in feeding its people and expanding its industrial base.

A decade ago, many of us feared that agricultural production couldn't keep up with population growth in South Asia. But today it is keeping up in most parts of the subcontinent. Subsistence agriculture is usually slow to change, but India, in particular, has made encouraging progress in food grain production.

A package of agricultural technologies -- improved seeds, fertilizer, assured supplies of water, technical assistance, and marketing support -- is raising output in large parts of South Asia. And as these technologies are extended, we can look forward to similar improvements in much of the rest of the region.

On the population side of the people/food equation, the results in South Asia have been disappointing so far. Only Sri Lanka has lowered its population growth rate.

Until recently we thought that India had too, but preliminary results from India's 1981 census indicate that its population growth rate has not yet declined. Its birth rate has come down, but mortality seems to have dropped more than what was expected.

In other large countries, such as Pakistan and Bangladesh, population growth rates have increased since the sixties. Mortality rates are falling -- and that's a good thing -- but a slower decline in birth rates has resulted in an unsustainable pattern of population growth.

South Asia has done better in coping with global economic turmoil over the last decade. Good weather has helped. And, in any case, international commerce plays a relatively small role in the South Asian economies.

But part of the credit for South Asia's successful adjustment to tough global conditions should go to about two-and-a-half million workers who migrated to jobs in the Middle East. The money they've been sending home -- now about \$5 billion a year -- has gone a long way towards covering South Asia's oil bills.

Then, too, as in other parts of Asia, much of the credit is due to governments which have improved their economic management in the face of difficult circumstances.

Even South Asia has, on balance, shown itself to be economically vital.

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The progress logged in most parts of Asia gives reason for hope. But the problems that still confront Asia are formidable indeed!

It's impossible not to be awed by the scale and persistence of poverty in Asia. And now, malfunction at the level of the global economy is making it much more difficult to attack the problems which underlie Asia's long-standing poverty.

Perhaps as many as 800 million people -- roughly a third of all Asians -- have incomes too low to provide themselves with the basic necessities of food, clothing, and shelter. Even if their nations produce sufficient food, these people can't afford to buy enough.

Twelve Asian nations -- including nearly 90 percent of the continent's population -- are among the thirty-six poorest nations of the world. They have incomes below the equivalent of one dollar per person per day.

Low-income countries -- and low-income people within countries -- have generally not benefited as much from the economic gains of the last generation as have countries and people who were better-off in the first place.

There is little evidence of improvements in income distribution -- even in China -- since the late 1950s. And it has proven difficult to improve standards of living for landless laborers or, in general, for families in the bottom quarter of the income distribution.

Great efforts have been made to eliminate the worst aspects of poverty, particularly to improve health and education.

The pace hasn't been the same everywhere, but the average life expectancy of a baby born in Asia in 1960 was 43 years. At the end of the seventies, average life expectancy was 58 years -- up one third in less than two decades!



Average primary school enrollment for Asia as a whole went up from 81 percent in 1960 to 87 percent at the end of the seventies.

And China had already achieved virtually 100 percent school enrollment by 1960. So excluding China from the averages highlights the dramatic improvements which the rest of Asia has achieved over the last 20 years. Outside China, only about 63 percent of eligible Asian children were in primary school in 1960, and that had risen to 83 percent by the end of the seventies -- again, up by about a third.

An increasing proportion of Asians have had at least some share in the continent's progress. That fact contributes to social and political stability, which is basic for continued progress.

Over the last decade, however, Asia's difficulties in overcoming its legacy of poverty have been compounded -- by high energy prices and slow growth in the world economy.

Asian countries managed -- better than most of us expected a decade ago -- to adjust to shocks from the global economy. For example, they maintained the high investment rates that most of them had built up over a generation. In 1979, the Asian nations invested an average of 28 percent of their national income. That's higher than the average investment rate of the world's developed countries, and it's double Asia's investment rate of 14 percent back in 1960.

Adjustment disciplines do pay off! On average, the Asian countries managed to maintain the growth rates they had achieved in the booming sixties throughout the harsh seventies.

This year, however, has been tougher for developing nations than any year in recent history.

A second round of oil price increases in 1979-80 added to the balance-of-payments strains on oil-importing countries. And the export earnings of developing countries are way down because of recession in the world's largest economies.

The index of commodity prices (after subtracting out inflation) is lower than it has been since 1945.

One Asian country after another is taking a beating, as both prices and volumes fall on commodity sales. In Bangladesh, it is jute; in Pakistan, cotton and rice; in Sri Lanka, tea, coconut, and rubber; in the Philippines, minerals and agricultural produce; in Malaysia, tin, rubber, and palm oil -- and these are just a few examples.

At the same moment, the middle-income countries of Asia are hard hit by record interest rates. Low-income countries are less affected by interest rates, because they aren't able to borrow much on commercial terms. But they are hurt by cutbacks in concessional assistance.

These current blows -- added to Asia's traditional problems and the economic shocks of the seventies -- are almost sure to slow down the already arduous process of Asian development.

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The World Bank has been a partner in Asian development -- during good times and bad -- for over 30 years. Lending to Asia has accounted for about a quarter of the Bank's total lending.

Let me explain that The World Bank actually consists of three affiliated institutions -- the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the International Development Association (IDA).

IBRD is owned by 142 member governments, but it raises the bulk of the funds which it lends to developing nations through bond sales...that is, from direct borrowings, mostly in the market place.

IFC provides nongovernmentally guaranteed loans to private companies in developing countries, and it sometimes takes equity positions in such companies. In essence, it is a merchant bank, a deal-maker -- working with the private sector.

Finally, IDA (which is funded by some 33 donor governments) allows us to extend credit to the poorest of the poor countries -- those countries that cannot normally meet the interest and maturity terms of IBRD loans...those countries that are not creditworthy by normal standards.



The World Bank (including its affiliates) provides technical and planning support for its borrowing countries which is as valuable as the \$13 billion of financial support which we are currently extending on an annual basis.

The Bank helps design solid projects, which leave their implementing institutions stronger and more efficient. In Asia, where a third of our lending has been for agriculture and rural development, the Bank's projects have provided key support for the introduction of "green revolution" technologies.

The World Bank also analyzes the overall economic situation of each of its borrowing countries. This helps us plan how we can best support each country's development, and it also provides valued input into the country's own analysis of its economic situation and prospects. The Bank has, for example, done country-by-country analysis of measures needed to overcome the adversities of the global economy over the last decade.

At the present difficult moment, the need for World Bank involvement in Asia may be greater than ever. So we are acting on two main fronts to provide assistance.

First, some middle-income countries are looking to The World Bank to strengthen its role as a catalyst for private investment. They need more investment than can possibly be supplied from official sources. In response, we are working to attract more commercial bank co-financing for our projects so as to enlarge the flow of funds to Third World countries.

And we are expanding the International Finance Corporation. IFC invested about \$130 million in Asia last year, and attracted another \$50 million from co-investors. IFC can and should attract considerably more investment to assist the private sector to grow and expand in Asia!

Second -- in addition to strengthening our role as a catalyst for private investment for the middle-income countries -- we are trying to secure the flow of concessional assistance to the low-income countries.

The immediate challenge is to fund IDA, the affiliate from which The World Bank provides concessional assistance to the very poorest countries, that is, financial credits which have a 50-year maturity and carry less than a 1% per annum service charge, in lieu of an interest rate.

Every few years the donor countries negotiate among themselves what each will contribute to IDA in the form of outright grants. But the United States, for several years now, has failed to meet its negotiated commitments, and this year some of the other major donor countries said that they, too, would cut their contributions in proportion to the U.S. shortfall.

The U.S. contribution was \$400 million less than the \$1.1 billion to which it had committed itself. Fortunately, some of the IDA donor countries have indicated that they will not go through with their pro rata cuts. All the same, for the twelve months ending this June 30, our IDA program has been cut back by almost 40 percent. This unfortunate circumstance was triggered by the shortfall in funding from the United States.

Negotiations on the next three-year IDA funding plan should start soon. They must take account of the scale of poverty that still exists and the very real needs of the poorest nations for external investment funds in these critical times.

And the new IDA negotiations must focus on the necessity of enlarging IDA resources -- to secure adequate flows to the still eligible traditional recipients of IDA while also making provision for the People's Republic of China, which has now taken its seat within The World Bank and IDA.

The World Bank is a development agency, and central to our mission is the alleviation of poverty. By population criteria, the largest poverty constituency resides in Asia, and so the Bank has a critical role to play in Asia. Furthermore, we are determined to play it!

This audience is aware of the importance of Asia to the United States, and the importance of low-income Asia -- now and over the longer-term future.

Asia produces about a fourth of the world's economic output, but the region includes more than one-half the world's people.

Nearly all parts of Asia have demonstrated economic vitality and promise. And the Pacific Basin, from China to California, may well be the most dynamic part of the world economy for the rest of this century -- a vast and expanding market that will directly benefit the United States.



The Asia Society, under whose auspices we gather tonight, provides one link -- of culture and information -- between Asia and the United States. The World Bank provides another kind of link -- that of technical and financial support. It makes nothing but good sense for the United States government and its people to do everything possible to strengthen these links.

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After more than a generation of intensive development efforts in Asia and other low-income regions of the world, we have some solid experience about what works and what doesn't work!

We know, for example, that domestic economic policies are decisive. That boosting food output is vital. That foreign trade pays off. And that aid can be effective.

The lessons of experience in one country or region cannot be applied mechanically elsewhere. But we have learned from successes, as well as failures, in Asian development over the last generation. So we have added confidence in applying these basic lessons of experience -- in Asia and in other parts of the world, such as Africa, which have enjoyed less economic success.

We are in a position to capitalize on the lessons of experience -- in Asia and around the world.

Asia needs continued international support for its development. And people in the United States can be confident that the help they provide will not be in vain.

Thank you!

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