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"BUSINESS, THE DEVELOPING COUNTRIES, AND THE WORLD BANK"

Remarks
As Prepared for Delivery by

A. W. Clausen, President
The World Bank
and
International Finance Corporation

upon receiving the

Columbia Business School Leadership in Government Award

New York, New York
April 11, 1983
Thank you, Charles. It is a privilege to be on the same platform with the likes of Charles Griffiths, Frank Lautenberg, Mike Sovern, and John Burton.

Columbia Business School is recognized for excellence, especially for being alert to the business importance of the global economy. And tonight's gathering of business leaders displays the vitality and global vision of New York's business community. So it is indeed a great honor that you recognize The World Bank with your Leadership in Government Award.

When they telephoned about a leadership in government award, I thought somebody might have dialed the wrong number. I came to Washington only 22 months ago, after 32 years in commercial banking. And although The World Bank is owned by 144 member governments, in many respects it is more like a business than a government bureaucracy.

Let me use this opportunity to make one point: business in the industrial countries is linked to the developing nations by overlapping interests. International institutions like The World Bank help to get those common interests working together for everyone's benefit.
Economic recovery is finally stirring. But the momentum of global development has been more decisively broken, the financial system is under more strain, and protectionism is a more ominous threat than at any time since the Great Depression.

The recession has caused suffering everywhere, and the suffering is most severe among the world's developing countries. Even the most dynamic Third World countries have been jolted by liquidity difficulties.

But many developing countries are making dramatic adjustments to cope, and to regain the confidence of creditors. So if the commercial banks continue lending abroad, if international financial institutions are adequately funded, and if the industrial economies indeed achieve recovery, the current strains on debt and development in the Third World will begin to ease.

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Some people in the United States ask how we can afford to worry about the developing countries when more than a tenth of our own workers are unemployed. But the fact is that we won't be able to bring unemployment in this country down very much without revitalizing the global economy, and economic revival in the developing countries is crucial for a strong and lasting recovery.
The United States can't worry about domestic concerns first and turn its attention to the global economy later. The world doesn't work that way anymore.

One-fifth of U.S. jobs depend on trade. Two-fifths of U.S. farm production is sold abroad. Four-fifths of new jobs in U.S. manufacturing are coming from trade. One-third of corporate profits come from international business.

And the United States now sells two-fifths of its exports to developing countries. During the Seventies, most of the developing countries averaged growth rates about twice what the industrial countries achieved. They became the fastest growing market in the world.

Some of the most promising developing economies are increasingly competitive in manufacturing. So to take full advantage of doing business with them, the industrial countries will have to remodel their own economies somewhat. Some people will get hurt by international competition, and they should receive special assistance. But more liberal trade is essential for a renewal of sustained and rapid economic growth in the industrial countries.
This recession has given us new evidence of the economic importance of the developing countries. Buoyant Third World growth helped to keep the recession of the mid-Seventies short. But the slump of the early Eighties has dragged on longer than anybody expected, partly because of adverse surprises from the developing parts of the world.

Developing countries have been hit hard by high interest rates and slack demand for their exports. Particularly after Mexico and other major borrowers suffered dramatic debt problems last year, the commercial banks cut back on their international lending rather abruptly. And that made Third World liquidity problems worse. The developing countries have had to slash their imports from the industrial countries.

The combined income of the industrial countries would have stayed constant in 1982 -- not dropped half a percent as it did -- if it hadn't been for the unexpected downturn in demand from the developing countries.

The U.S. Treasury calculates that the Mexico debt crisis alone cost the United States $10 billion in export sales last year. By their reckoning, that's equivalent to a quarter of a million American jobs.
Clearly, the world has grown smaller, the developing economies loom larger, and business in the industrial countries now has a substantial self-interest stake in healthy Third World development.

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Let me turn that around. The developing countries also have a self-interest stake in the vitality of business -- their own domestic business and international business, too.

In most developing countries, the private sector accounts for 70 to 80 percent of economic activity. So economic growth depends mainly on whether the private sector is given the incentives and support it needs to expand production.

Private investment from abroad can give an extra boost to developing economies. Private capital flows to developing countries quintupled in real terms between the early Sixties and late Seventies. Most of the growth was in commercial bank lending, but many countries have, in recent years, become more eager to attract direct foreign investment, too.
And, without question, developing countries that have taken full advantage of international trade have tended to be more successful in raising their standards of living.

During the Fifties and Sixties, many developing countries increased the level of government intervention in their economies. Third World governments tried to accelerate and redirect development by launching publicly owned industries and by regulating key prices. They tried to foster domestic industry by raising tariff barriers and by nationalizing foreign-owned enterprises.

But a generation of development experience has demonstrated the advantages of free markets and international commerce, and the trend of recent years -- in Asia, in Africa, and in Latin America -- has been toward freeing up prices and toward export-oriented growth.

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Global economic institutions -- principally the GATT, the IMF, and The World Bank -- help the industrial and developing countries build on their overlapping interests.
The GATT (the General Agreement on Tariffs and Trade) encourages free trade. A failure to resist today's intense pressures for protectionism would be the surest way to abort sustained recovery. Especially for developing countries, hard-pressed for liquidity, nothing is more important than export opportunities.

The IMF (the International Monetary Fund) is the world's front-line defense against financial crisis. The proposed increase in IMF quotas would provide the IMF with resources it needs to be fully effective in today's nervous financial environment.

Finally, The World Bank. The objectives of The World Bank are to help raise incomes and reduce poverty in the developing countries. The Bank consists of the IBRD (International Bank for Reconstruction and Development) and two affiliates: the IFC (International Finance Corporation) and IDA (the International Development Association).
IBRD lends only to creditworthy developing countries. It raises the bulk of its funds by selling bonds in the world's major capital markets. IBRD bonds have earned a quality rating enjoyed only by the soundest of governments and corporations. IBRD projects are rigorously planned and supervised. It cannot lend more than the equivalent of its capital and reserves. IBRD makes a substantial profit, which we plow back into the business. IBRD has never faced a default, and we maintain a firm policy against rescheduling.

IFC works almost entirely with commercial enterprises. IFC is like an investment bank. It can provide loans or equity financing, and it doesn't need government guarantees. IFC puts together partnerships between private investors around the world and commercial enterprises in the developing countries. It also helps to develop capital markets in the Third World.

IDA is our concessional lending affiliate. IDA funds are contributed by 33 donor governments. IDA funds are then loaned, on generously concessional terms, to the poorest of the world's poor countries. Ninety percent of IDA funds go to developing countries with average incomes below $410 per person per year. The World Bank could not operate in many of the poorest developing countries, including most of Africa, without IDA resources.
But IDA is not an international welfare program. IDA funds are invested. Its projects meet exactly the same criteria that we use for IBRD. Over the years, 27 countries have graduated from IDA, and some former IDA recipients -- like Korea and Colombia -- are promising, upwardly mobile members of the global economy.

The World Bank (IBRD, IFC, and IDA) is good business for the industrial countries -- most fundamentally, because economic progress in the developing countries stimulates economic progress in the industrial countries.

Most of The World Bank's investment is in commercial activities in the developing countries, and much of it is on-lent to private-sector producers. The Bank's large program of lending for agriculture, for example, concentrates on raising the productivity of small-scale farmers. And a fifth of the Bank's lending goes into industry, development finance companies, and small-scale business.

The World Bank also helps make the public sector in developing countries more efficient. We invest in infrastructure (roads, for example), in the improvement of human resources (population programs, for example), and in initiatives that raise the productivity of the poor. And, in addition to its loans, The World Bank provides Third World governments with pragmatic, non-ideological analysis and advice on economic policy issues.
The World Bank's work involves various forms of collaboration with business in the industrial countries. IBRD's liquid assets and bonds are mostly held in the industrial countries. And industrial-country enterprises are partners in most IFC projects. The Bank's procurement norm is international competitive bidding, and seventy percent of IBRD and IDA disbursements finance international purchases.

You might be interested to know that U.S. firms have won 60 percent of the contracts in the first phase of procurement for the first IBRD/IDA project in the People's Republic of China. They will be supplying Chinese universities with scientific, engineering, and data processing equipment.

The World Bank is currently expanding its cooperation with business based in the industrial countries.

Despite the general slump in private investment, IFC increased the total investment in its projects last fiscal year. The percentage of IFC deals that involve U.S. companies has gone down in recent years, and we'd like to see U.S. companies hustle a bit to keep their share of the action.
IBRD has also been working to attract more co-financing to its projects. We just introduced new co-financing techniques that should make doing business with IBRD even more attractive to commercial banks. In terms of co-financing deals formalized, Japanese banks are in the lead, with U.S. banks in second place.

The World Bank is eager to work together with enterprises from the industrial countries that might want to bid on a Bank-financed contract, to join in an IFC deal, or to co-finance a project with us. The private sector will be more forthcoming now that economic recovery is stirring, and we hope that some of this likely wave of private enterprise will join us on the frontiers of opportunity in the developing countries.

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In closing, let me speak very frankly. After 22 months in Washington, I am frustrated and angry.

The World Bank is an excellent institution -- much more effective than I imagined from what I had read in the press. But it depends on support from its member governments. It depends on positive leadership from its biggest shareholder, the United States. And we have been constrained in our operations, especially in the poorest of the world's poor countries, because of wavering support, especially from the United States.
The United States produces about a quarter of the world's total economic output. That is too small for the United States to "go it alone" economically. But it is large enough that the rest of the world depends on the United States for leadership on economic issues.

In this time of contraction, everybody tends to protect his own interests. Generosity is scarce. But we dare not turn our backs on the world's neediest peoples. And, especially now, it is crucial to recognize and build on common interests.

The common interests between the industrial and developing countries, and the catalytic role of multilateral economic institutions like The World Bank, is a combination from which the whole planet can win.