

Japan/World Bank - Partnership for the Road to Recovery in East Asia

Remarks at the Symposium

by

James D. Wolfensohn
President
The World Bank Group

Tokyo, Japan, November 11, 1998

Our partner sponsors, Mr. Sadakazu Tanigaki, State Secretary for Finance, Ministry of Finance, my co-panelists, ladies and gentlemen. I cannot tell you the delight that I feel in being here for this very admirable conference and in having the chance to complete three days of discussions with representatives of government, civil society, academia and business. I very much look forward to the panel discussion and to hearing from the panelists so that I can go away knowing that I have the breadth of views of all of you.

When I was asked to speak at this conference and was told that the title was "Partnership for the Road to Recovery in East Asia," I decided to look up about the first road to recovery on which we helped, which was when we were actually a lender to Japan. You may or may not know that between 1953 and 1966, the World Bank actually loaned, for 31 projects in this country, a total of US\$863 million. It was a lot of money in those days -- less today. We were fortunate to be in such projects as the Kurobe Hydro Dam and, I am happy to say, the bullet train. Every time I ride the bullet train, I feel a sense of ownership and a sense of partnership with you. We indeed feel very proud.

However, the roles have changed. If ever there was an example of a road to recovery and the assumption of leadership in the world and of its rightful place as an economic power, Japan is no longer someone that we are lending to, Japan is my boss. You are the second largest shareholder in our institution and the first partner that we have in dealing around the world with development issues. We together are taking on many of the problems associated with development of 4.7 billion people, the developing world, out of 5.6 billion people. Your country has adopted a remarkable leadership role in terms of increasing your Overseas Development Assistance (ODA) and your involvement in development around the world to become the leader in this activity. As a basis, you have moral and social values, but of course also, there is an understanding on the part of Japanese leadership and business that the world is in fact the marketplace and the partner of Japan and that the commitment to the growth in the other parts of the world is a commitment to the growth of Japan itself and in fact a decline in other parts of the world is a challenge to the economic structure of this country and to the investments overseas.

So, it is not surprising when we came to the crisis in East Asia, that it was Japan which was at the front line of countries that were concerned with the developments, first in Thailand, in Korea and later in Indonesia, and then with concerns about Russia, concerns about Latin America, indeed concerns about the entire global economy. Because, it is fair to say that today a problem in East Asia is no longer confined to East Asia. You cannot just take three countries and say any more -- that is the problem. Maybe that was once possible two centuries ago.

However, today, as all of you know and as we on the front line clearly know, the issue of dealing with recovery is not just limited to a region of Thailand, Korea and Indonesia. It is conveyed throughout the world by lack of confidence, by lack of trade, and by lack of liquidity. You may or may not know that in the last two years, the interest of the developed world in providing private sector financing to the developing world has gone from US\$350 billion a year in round numbers, to this last year, US\$150 billion. That means there is a reduction in liquidity available for developing countries of US\$200 billion. There is a lack of confidence, not just on the part of the international flows, but in many of these countries a lack of confidence domestically when it comes to investment. This all compounds to create a problem. And that problem in turn presents us with the challenge of a road to recovery, the title of our discussions today.

And so it is that we have to look at how we deal with these problems. What is it that the Bank is doing? What is it that you are doing? And how is it that we approach this issue? We cannot see negative growth, we cannot see ourselves losing the benefits of the enormous advances that have been made over the last 25 years in Asia in terms of literacy, in terms of poverty, in terms of development. We cannot see that wiped away, much as the progress in Central America has been wiped away in these tragic occurrences of recent days. In Honduras and in Nicaragua, the advances made in 20 years have been wiped away by water and by mudslides. This is not what we have in Asia. This image of Central America is one of devastation. The image of what is happening in Asia and in other economic developments in the developing world is of a significant and brutal adjustment, but something from which we can and must recover. So, what is that we are doing?

I think all of you know of the financial packages. The financial packages that have been announced under the leadership of International Monetary Fund: US\$57 billion for Korea, US\$17.2 billion for Thailand, and so on and so on. You know that in the current days, all the debate is whether there will be a package for Brazil and if so, how much will it be? And how much will be available for Russia? Yes, it is important that we have financial packages and yes, it is important that we restore some sense of stability to the financial markets, but it is not the single issue.

There is a second issue, a parallel issue, an issue of what is going on in the countries. An issue of the social developments in these countries. An issue of unemployment. An issue of poverty. An issue of social stability, which we must address. An issue of structure. We are talking in Korea and Thailand and in Indonesia. Lets fix the banking system. Lets have supervisory bodies. Lets strengthen the banks. Lets fix the judicial

system. Lets have courts that move efficiently. Lets protect property rights. Lets fix the bankruptcy laws. Lets change the regulations. Lets attack corruption. Lets strengthen governments. Lets ensure that we have investments in infrastructure. Lets keep the kids in school, in education programs. Lets retain the health programs. Lets ensure that we are conscious of the environment. Lets make sure that we have social safety nets. I can go on. But, each of these issues is not an issue that is solved by a check. It is not solved with an amount of money. The real turn around in terms of recovery in Asia is not solved by US\$57 billion. It is essential that we have an economic and financial framework, but for the rest, each one of these social and structural challenges is going to take time and is going to take great involvement by the partners that are concerned. It is really the human face of development that we need to deal with as a matter of social responsibility, as a matter of moral responsibility, but also as a matter of good business.

We need to engage the private sector. We need to engage civil society. And we need to engage governments if the road to recovery is going to be stable. You can have all the money you want, but if you are trying to attract investment, domestic or foreign, and your city is ruled by crime and you cannot go out of your hotel, and you are concerned about investing lest the local mafia comes in and takes over your plant and you are concerned about driving in the streets because of the unemployed and because of social instability, you have no environment for good business. There is no way that you can restore confidence.

We need a broadened perspective. We need to focus on the social and the structural. We need to work together to bring about an assured growth and an assured road to recovery. You must understand that it is not just a financial issue. It is an issue that requires partnership. It is an issue that requires involvement. And it is an issue which requires us all to think about the road to recovery, not just as an isolated issue on a few countries, but as a general responsibility that we all share.

We need free trade. We need openness. We need risk takers. We need people that care about social issues. We need people that have some sense of equity and social justice. We need it not just because it is right. We need it because if one does not have this structural and social reform, there will be no peace and there will be no development. There will be instability and the road to recovery will not be smooth. I urge you to think beyond the US\$57 billion and think about the months and years that are required and do not think just of the issues as being International Monetary Fund or the World Bank or the Japanese Government. These issues can only be solved by all of us. It is not an opportunity for anyone in the room to point fingers at anybody else, because every one of us shares this responsibility. It is for that reason that I am very happy to be part of this very distinguished panel which represents so many aspects of this problem, and to be with all of you to have our discussion today. I thank you on behalf of the World Bank and our sponsoring partners for being here, and I look forward very much to hearing my colleagues speak and to participating in the discussion. Thank you so much.