"Development Problems and Prospects: Next Steps"

Remarks

by

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before the

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on

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Current Challenges and Constructive Next Steps"

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Thank you, David. Good morning, ladies and gentlemen.

It is an honor to share some of our current thinking at The World Bank with this distinguished audience.

You folks start early. "Development Problems and Prospects: Next Steps" ... that's pretty heavy fare to be served up with eggs and fruit-juice.

I've been doing a lot of public speaking since coming to The World Bank, because there is a simple message we've got to get out in the trilateral countries, especially in the United States. The message we have been repeating over and over is this: We live in a global economy. We have a vested economic and political self-interest in the continued progress of the developing countries. What the developing countries need from the industrial countries is liberal, expanding international trade so that they can sell their exports, but they also need expanding credit -- from banks, and from other commercial investors, and from international financial institutions like the IMF and The World Bank.

In this group, I full well realize that I'm preaching to the converted. The Trilateral Commission just released an excellent report, by Bob McNamara and his colleagues, which makes precisely these points.

And so let me congratulate the Trilateral Commission for its support of the cause of international development.

Your task force report documents the current economic crisis in developing countries. The recession has nearly overcome the characteristic dynamism displayed by the developing countries over the past 30 years. The recession has pushed the poorer countries of Africa, however, from economic stagnation into an alarming process of economic deterioration. And after the near-crisis in international debt last year, most of Latin America is now embarked on draconian adjustment programs.

The drop in developing-country imports in 1982 had a depressing effect on the whole global economy -- equal to what would happen if U.S. imports suddenly dropped by more than a third. In my view, it is doubtful that the trilateral countries can achieve economic recovery while the developing countries are sinking deeper into recession.

It is also doubtful that present economic trends in the developing countries can continue for long without straining the social and political fabric of some countries to the breaking point.

There is considerable agreement on what the developing countries most urgently need from the trilateral countries in order to avoid a plight even more desperate than what presently exists.

First, the developing countries need sustained economic growth in the trilateral countries -- noninflationary economic growth!

The recovery that is presently underway is tremendously welcome relief. But the strength and duration of this recovery are uncertain at best. In addition, the trilateral countries need to make structural changes that will make their economies more efficient and adaptive. In general, the developing countries have adjusted faster to changes in the world economy over the last ten years than have the industrial countries.

Second, the developing countries need for the trilateral countries to preserve and maintain a liberal, multilateral trading system.

Liberal international trade is a key to sustained and rapid economic expansion, and liberal trade between the industrial and developing countries is especially crucial. The only solution to the debt squeeze on many developing countries is for them to expand their exports again -- to increase their foreign exchange earnings -- and thus increase their ability to import goods and services from other countries. And the gains from liberalizing trade with the developing countries would be dramatic, because there are especially large differences in production costs between the industrial and developing countries.

Third, the developing countries, especially the middle-income developing countries, need continued expansion in commercial-bank lending.

Net lending by the commercial banks to developing countries -- that is, new lending minus repayment of principal -- dropped from $42 billion in 1981 to $24 billion in 1982. That $24 billion of net lending in 1982 didn't come close to covering what the developing countries had to pay to the banks in interest. So there were negative transfers to commercial banks last year.

Net lending to Latin America plummeted from $31 billion in 1981 to $11.5 billion in 1982. And of that $11.5 billion only $400 million came in the second half of the year.

Some restructuring of debt has taken place in the first part of 1983, and that will ease repayment problems. But net lending in 1983 will again probably not cover interest payments.

The drastic cut-back that has taken place in commercial lending is out of line with both the past performance and future prospects of the countries that have done the bulk of the borrowing. Today's repayment problems are mainly due to the unexpected severity of the global recession, not to carelessness or bad management. Most of the big debtor nations are making adjustments right now that few of the trilateral countries would dare to attempt.

It is very clear that banks need to make careful judgments on a country by country basis, but, overall, continued expansion in international lending is still good business. And the abrupt slowdown in lending by the banks substantially increases the risk of defaults and of more severe problems of confidence in the banking system.

Fourth, the developing countries need an expansion of official lending and of development assistance.

Commercial-bank lending will probably not start growing again at its former pace for the foreseeable future. An increase in official lending can help close the resulting gap, and somewhat cushion the depressing effect on developing economies.

More important, a more substantial presence by the IMF, The World Bank, and other official lenders in the developing countries will help reassure commercial banks and encourage the expansion of commercial investment.

One should not fail to note that official lending -- particularly through multilateral financial institutions -- is conditional. The world economic situation confronts developing-country governments with a host of difficult policy decisions. The World Bank and IMF can help, far more effectively than commercial lenders, with economic analysis. Lending from the Bank and the Fund is tied to improvements in economic and sector policies. I strongly believe that help starts at home and that adjustment of economic policies is what is called for by all countries.

The IMF is the world's front-line defense against unduly sudden adjustments to balance-of-payments problems, and it is essential that the proposed increase in IMF quotas be ratified.

But coping with immediate liquidity problems is only half the job. To get out of the financial and political bind the developing countries are in now, they must recover the momentum of economic and social progress. And The World Bank is uniquely suited to help the developing countries get their economies moving forward again.

Within the Bank, we have taken steps to meet the distinctive challenges of the present crisis.

We are strengthening our programs of cooperation with commercial investors. We have expanded co-financing with commercial banks, and we've recently adapted more flexible approaches to co-financing. We have also expanded IFC (the International Finance Corporation), the World Bank affiliate that works exclusively with commercial enterprises in the private sector. IFC is really a merchant bank -- it is a deal maker, it can take a piece of the action, including equity, and extend loans. It does not require government guarantees.

In February, the Bank adopted a Special Action Program that will increase our disbursements to developing countries over the next two years. This Special Assistance Program also involves reviewing all planned and ongoing loans, to make sure that we're supporting investments and policy decisions that deserve priority attention under today's recessionary conditions. We shall emphasize structural adjustment lending a bit more in the coming months under this program.

But the Bank could, and should be doing more in response to the critical needs in developing countries. So let me ask your help on several specific "next steps" ... as we see it.

First, we need more commercial banks to work together with us on co-financing and more firms to join the IFC in equity investments. We have moved quickly to design projects that will be attractive for co-financing, but it is taking much longer to actually formalize agreements with commercial banks. We have been pushing for expansion of IFC's program, but the percentage of deals that involve U.S. companies has gone down in recent years. European and Japanese corporations have been more active than have U.S. firms.

We also need political support to expand IBRD (the International Bank for Reconstruction and Development). More than seventy-five percent of the funds we lend come through IBRD.

IBRD will borrow close to $11 billion this fiscal year. That is twice the borrowing of two years ago. And we could comfortably borrow much more. We also have the capacity, right now, to identify and supervise a larger program of quality investments in the developing countries. Under the present circumstances, it would be irresponsible not to take full advantage of IBRD's financial and administrative capacity, particularly when commercial banks are gradually reducing their exposures and official development assistance is not growing at best.

But present planning assumptions call for no real growth in IBRD lending. So we are proposing that we revise those assumptions and plan instead to increase IBRD lending by about five percent a year in real terms starting next year. We must have the support of our member governments to proceed, and the major shareholders -- like the U.S. -- are critical for that expansion to occur.

We will also need to address the capital needs of IBRD. IBRD cannot lend more than the equivalent of its capital and reserves -- i.e. it has a gearing ratio of one to one. We will face severe problems within three years unless we address the issue of IBRD capital needs in a timely and realistic fashion. There should be no doubt here that official flows of capital to the Third World must rise, in order to help reduce severe strains on the global economy.

Finally -- and most urgently -- we need help getting funding for IDA (the International Development Association), the World Bank's concessional affiliate.

We cannot do much in the poorest countries without grant funding for IDA. Of all the 33 governments that donate to IDA, the United States has been the most laggard and unreliable. The present Administration decided to stretch out over four years what was originally a three-year commitment to the present IDA replenishment. After great debate and uncertainty, the other donors agreed not to scale back their commitments -- but to meet them within the three years originally agreed upon. In fact, they committed an extra $2 billion to help make up for the U.S. shortfall while waiting for the U.S. to catch up with its funding.

But Congress has yet to appropriate $245 million of the Administration's scaled-back commitment for this fiscal year. This $245 million has an importance way out of proportion to the amount of money involved; because another U.S. shortfall would be one more in a series of broken commitments to the other donor nations. It would give every other donor the legal right to scale its commitment back proportionately, and it would make it much, much more difficult to negotiate a reasonable level of contributions for the next replenishment of IDA, which is in process now with the hope that legislative authorizations can be in place 13 months from now.

While the international press has given more attention to the present crisis in developing countries like Mexico and Brazil that have been able to afford commercial borrowing, most of the world's poorest countries have been even more severely affected by the global recession.

IDA is the largest and most effective program of concessional investment in the world's poorest countries. Reneging on U.S. commitments to IDA is not only bad economics. It is bad for global security. It is bad for U.S. relations with its closest allies. And it is obviously bad from a humanitarian point of view.

The crucial $245 million supplemental appropriation has been approved in sub-committee, and has been scheduled for consideration by the House Appropriations Committee tomorrow.

The Trilateral Commission task force report shows that you understand the gravity of the present crisis in most of the world's poorest countries very sincerely, and we look to you for strong support for IDA as well.

With that, let's go on to questions and discussion.

Thank you.

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