Fifth German World Bank Forum - Keynote Speech

by
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First of all, may I thank you Mr. Wackerbeck, Professor Feddersen, Mr. Rupf and your colleagues for being a host here in Berlin and I'd like to say what a pleasure it has been for me to be again in the city which I visit now very frequently. I recall, as I see Mr. Reuter in the second row, that we were together on the night the wall came down, an experience I will not forget and I am grateful to see him here today. I also want to thank Dr. von Pierer for coming. He was our host last year at our meetings and I thank you very much for being with us.

Let me start also by paying tribute to Minister Wieczorek-Zeul for the existing relationship which we have with Germany and which has enriched our activities in the Bank and brought about a much closer relationship between Germany and the Bank and I think a more interdependent relationship—one in which she feels very comfortable in criticizing me and I feel occasionally very comfortable in modestly making suggestions to her. So it is an equal partnership as you can see and one which I certainly enjoy. There is a new force in the field of development with four new women ministers and I can only tell you that four women ministers are more powerful than all the other ministers. And of course she is at the center of that activity.

Let me set the framework for a minute not about actual activities of the Bank, which I will have an opportunity to talk about at dinner; but rather to give you my perspective on why I think public/private partnership is so important. I start with the belief that for business people to be involved in the issue of development, they must recognize not just an appeal to their moral position and their social position or their ethical position but that it is also helpful to have a sense of the economics and the self interest of business.

This is not to diminish the moral or social reasons, but it stands to reason to engage business in terms of its activity, one has to make a case as to why it is that development is important. That case to me is very, very clear and has become clearer as I have now spent five and a half years in the Bank—and many of you coming from the private sector already know this. The case is rather simple. There are 6 billion people in the world and 4.8 billion of them live in developing countries. The 4.8 billion, which is 80 percent of the population, have about 20 percent of the global income of 30 trillion dollars. The 20 percent have 80 percent of the income.

So, first and foremost, business looks at the developed markets because they are the most profitable and the most concentrated and very often the
most competitive. In the developing world it is clear that in terms of trade and in terms of exports, in terms of business opportunity, there is a reality today and a real potential. The numbers show that the private sector internationally has taken an interest in that, not just in ever-increasing trade, but also in investment. And as Heidemarie observed 10 years ago, foreign investment in developing countries was at 30 billion dollars a year, which included portfolio investment and lending. It was then half the size of development assistance, which was 60 billion dollars. Last year development assistance was at 53 billion dollars and direct investment alone reached close to 200 billion. If you take in bank lending and portfolio investment it was something in the order of 250 billion. So, from being half the size 10 years ago, depending on the statistics you use, it is 4 or 5 or 6 times the size in the last several years. At its peak it was 7 times the size. So the first thing is that the private sector is showing its interest by this enormously expanding investment. That is not salesmanship, that is fact.

The second thing is that as we look forward 35 years the world population will grow by 2 billion people. So in 25 years time we will have a world not of 6 billion but of 8 billion and the other fact is that in 35 years time, of the 2 billion people that will be added to the world, all but 50 million of them will go to the developing countries. So the world 25 years from now is more or less 6.8 billion people out of 8 billion people in developing countries. Europe will be the same size. It will be different, it will be older. It may have different demographics because of immigration, different characteristics, but in terms of people it will be about the same size. You can vary these numbers by 10 or 20 million dollars but broadly that is the situation. So there are 2 reasons why the private sector needs to look at this challenge.

First, because if the developing world does not develop and stays unequal, stays poor, there is no way you will have peace. Thats just a very simple assertion on my part but I believe it to be true. You cannot conceive of a global economy with communications, with finance, with crime, with drugs, health, environment and immigration and with Internet that is continuously unequal. You dont need an army to create problems anymore. You need a bit of terror, you need a bit of crime and you need immigration. And so there is really no way in my judgement that business cannot be interested in terms of stability--other than to think in terms of the developing countries as a defensive measure.

As an offensive measure, which is much more interesting, the creation of a market place of 6.8 people that is increasing in size and in scope and in depth, many would say is the place that the growth will come from in terms of development of markets. Many macro-economists would argue that in terms of percentage increases and also in terms of absolute increases we should be looking for a disproportionate growth in the developing world. I believe that to be the case also. Now if it is to occur--this growth and this greater equity, this greater sense of social peace or social justice--then many of us have to play a part.

It cannot be done by the German Development Agency alone. It cannot be done by the World Bank alone. It cannot be done by the Egyptian government alone and it cannot even be done by Hisham alone. What we do
need to do is to try and see ways to see if we can work together on this problem. The World Bank and the official institutions can do a lot to create the climate. As I mentioned earlier, it is essential to have a framework that attracts business. You need good governance, you need a legal system, a financial system, you need a judicial system, you need to combat corruption not just in developing countries but also in some of the developed countries as the OECD has demonstrated so that bribes are not deductible for tax purposes.

There is a need to address this corruption and the framework and we can help with that. On issues of governance it is essential that business speaks its mind and that western practices—as we know them in terms of transparency, accounting and better governance—are also conveyed to developing countries. The thing that we clearly have to do is to deal with the issues of job creation and investment and try to help the countries build their capacities. Here what we are discovering is that in our attempts to bring business along, in our attempts to bear social responsibilities, we are finding a tremendous interest both on the part of large multi-national companies but also medium-sized companies in terms of reaching out to help build the societies in which they operate. This is not just throwaway charity. This is creating the climate in which business can be more effectively done as well as creating a more stable environment to move forward.

And whether it be an example of going to the kids in terms of Internet and knowledge based centers or in training apprentices or bringing about training or in dealing with issues about equity (which companies can contribute) we are finding an enormous sense of growing understanding on the part of business about that responsibility.

We have in our firm something we call the Business Partners for Development Program, and in that we have just four subjects that we thought we'd bring businesses together on. One thing was natural resources, how oil and mining companies could enhance prosperity in communities and water and sanitation, which the minister mentioned earlier. Something central to the future. How to bring the private sector to that.

The issue of youth development and finally safety partnership which is one of the big killers in the world today. These are not throwaway activities. These are real activities that can contribute to the stability and growth in these countries. And I would invite any of you who are interested, to be in touch with us in relation to your own interest because we can provide you with a huge amount of information about the countries in which we are operating and we can also provide you with information on investment opportunities and partnership opportunities with the Bank and with our related organisations.

Peter Woicke, who is here, is in charge of the IFC and private sector activities and either tonight or subsequent to tonight, either directly or through the Minister, we are ready to take your interest either in terms of direct investment or in terms of partnership or where you have interest to try and broaden your interest into issues of social
responsibility and working with the communities so that we can work together.

I want to leave time for questions, but let me just touch on two other things. The role of civil society today. I remember going to the WTO meetings in Seattle and saying to Mike Moore, the head of WTO, that if only he did things as intelligently as we did at the Bank he would have no problems. Three months later in Washington he came to me and said, as we tried to get through the lines of the demonstrators, "What did you say to me in Seattle?" I would say to you that we are first, but business is second and you should not underestimate the need for interface with society in terms of the world in which we are going to operate. It has already manifested itself against McDonalds, against Kentucky Fried Chicken, against certain oil companies but this issue about interface and discussion with society, I predict to you, will become a very key issue as you move forward in business.

We at least have some interface with society as many of you do too, but in terms of the environment, in terms of social justice and the way that companies are run, international industrial societies and banks are the next target. I urge you that this issue too can bring us together either as a force for positive development or as a source of big trouble for all of us. And I raise this issue because it is my judgment that this is another area in which we could all work together and exchange experience. This is not just a question of dealing with business opportunity this is also a question that I think you may well find a convenient partner in the World Bank Group with whom you can deal.

So, for all of these reasons, I am a big supporter of public/private partnership. I congratulate the government for its efforts and I merely want to say in addition to what has been said earlier that we stand very ready to work with you. We look forward to our contact with you not just next year but in the intervening period and I hope that I may have sketched for you some good reasons why you might think it useful to think about the 6.8 billion people that will be here in 25 years. I'm happy to know that many of your companies are already leaders in your work in the developing world. A number of companies here are already the most multinational in the world. For those that are amongst that number, we need you, and, for those that are not, we welcome you and hope that we can work together. Thank you very much.