

Emerging Trends in East Asia: New Directions in the World Bank's
Partnership

by

James D. Wolfensohn
President
The World Bank Group

Washington, D.C., May 10, 1996

Remarks at the meeting organized by the Institute of Policy Studies,
Singapore

Thank you Mr. Chief Justice. I would like to thank Professor Tommy Koh for organizing this event. I am sorry he cannot be with us today. I would also like to thank Dr. Lee for representing the Institute of Policy Studies.

I am in Singapore on a trip through East Asia. This is a region of great complexity and diversity of culture and of levels of economic development. The region is central to the astonishing growth in world trade and investment that is now taking place. It will become the largest regional market in the world in the early part of the next century.

The acid test for development is not the economic growth numbers, which are of course enormously impressive in East Asia; it is whether peoples' lives are improving and whether our fight against poverty is achieving success. In the eight fastest-growing East Asian economies, life expectancy increased from 56 years in 1960 to 71 years in 1990. The percentage of people living in absolute poverty has dropped dramatically. In Indonesia, it went from nearly 60 percent in 1960 to 15 percent in 1990; and in Malaysia from almost 40 percent in the early 1970s to 10 percent in 1990. While progress is being made in other countries, such as Vietnam, where 55 percent of the population lives below the poverty line, we still have a long way to go.

Singapore's investment in its people is particularly impressive. It has ensured that the benefits of rapid growth are shared on an equitable basis, narrowing the gap between rich and poor. The Government has invested heavily in health, housing and in high quality basic education, including for girls and women. As a result, it now has one of the world's most productive and versatile workforces with leadership not only trained at home, but also at the greatest institutions of learning and technology abroad.

Nobody did all this for East Asia; nor was there an exact model in Europe, or the United States. East Asians have done it for themselves and have developed their own paradigms of development from which we can all learn. I know your part of the world well; in fact, in my former life as an investment banker I had the good fortune to be an advisor to Senior

Minister Lee. So I am aware of the hard work, the difficult choices, and the sacrifices that the people of the region have undergone to achieve these results.

The World Bank has been involved in a supportive role at every stage. I want to ensure that we continue this role. With this in mind, let me make four basic points this morning.

" Despite their remarkable successes, East Asian countries face formidable challenges in sustaining their development in the face of large-scale changes taking place throughout the region;

" Increasingly, there is a common development policy agenda that the countries of the region confront in dealing with these challenges;

" This common agenda must be the agenda of the World Bank Group if we are to remain relevant to your needs;

" Responding effectively to these needs will require that we in the Bank Group forge new partnerships and revitalize traditional ones.

The Challenges Ahead

There are large-scale changes taking place in East Asia. These changes are producing a number of new challenges, which differ according to the economic and social circumstances of each country. I want to highlight five aspects of these challenges this morning.

East Asian countries are the principal beneficiaries of the massive increase in international private investment that is taking place. Of the roughly US\$170 billion in private capital flows to all developing countries last year, US\$100 billion (nearly 60 percent) went to East Asia. These flows bring significant benefits. But as the Mexico crisis demonstrated last year, recipient countries must strengthen their capacity to manage effectively the more volatile components of these flows.

Simultaneously, there has been a major increase in regional integration into the world trading system. Over the last two decades, intra-regional trade grew from 29 percent to 44 percent of the region's overall trade, while the share of world trade rose from 3 percent to 10 percent. Rising exports have been a major source of domestic growth for most countries of the region. In some of these countries - especially the middle and higher income countries declining trade barriers and rising wages are resulting, in greater competition at home and abroad from low cost producers of labor-intensive consumer and other wage goods. This is forcing much greater attention to policies that maintain export competitiveness, including, in particular, upgrading skills of the labor force. These trends- are also leading to a significant increase in the number of migrant workers in some countries (migrant workers, for example, account for at least 10 percent of the labor force in Malaysia). Large-scale labor movements in the region are bringing yet another set of challenges.

There is a transition from predominantly rural to increasingly urban societies. In the early 1990s about 500 million East Asians lived in towns. By about 2025 we project that the urban population could be about 1.5 billion. By then, East Asia is expected to have 9 cities with more than 10 million people each. The continued rapid urbanization will exacerbate already serious problems of pollution and congestion, and will severely strain existing inadequate capacities to provide basic services such as housing, water supply, sanitation, and transport.

There is a social transition taking place. The global economic revolution, combined with rising education and rapid advances in information technology, is producing a revolution in social values. East Asia's increasingly middle-income and more urban populations want to be more involved in their countries' political and developmental decisions; they seek high quality and accountable public services, and they demand increasing transparency and liberal access to economic opportunities. In addition, the population is aging and the demand for improved social security is becoming more urgent.

There is a transition from planned to market economies. Two-thirds of East Asia's population lives in economies making this transition. Their increasing integration into the global marketplace means that large numbers of workers and their managers must cope with the a tough new world of international competition. State enterprises in many of these transition economies are struggling to adjust to these new realities.

The Emerging Development Agenda

For those lower income countries like Vietnam, Laos and Cambodia that are making the transition to policies for market-based growth, the key elements of the development agenda are as follows:

" Establish and sustain macroeconomics policies that stabilize and open the economy to international trade and investment;

" Launch measures that develop the private sector, including privatization of state-owned enterprises, pro-market regulatory reforms, financial sector restructuring and making credit more accessible to entrepreneurs;

" Improve the quality of public sector management, through training, twinning arrangements, secondments to the private sector and overall restructuring; and

" Move forward aggressively to reduce poverty and improve human welfare through programs for rural development, education, health, and safe water. These need to target the poorest populations, including those living in remote regions, and must afford equal opportunities to women for access to education and finance.

Let me turn now to those countries that have turned the corner and are approaching, or have entered the ranks of middle- and higher-income countries (e.g., Malaysia, Thailand and Indonesia). These countries are moving from basic, labor intensive industries into more technologically

advanced activities: their relative development success has brought about pressure on the environment and on urban resources. For such countries, the development agenda includes:

" Upgrading the quality of worker skills to maintain international competitiveness and increasing the overall quality of education and training systems;

" Improving conditions for private investment through regulatory and financial sector reform. Liberalization of services, including financial services, is expected to be a contentious topic for discussion under WTO auspices in the next few years. Another critical area for improvement is the region's bond markets. Further progress is also needed in opening capital accounts;

" Investing in high quality infrastructure, and advanced information technology and telecommunications. We estimate that meeting the demands of infrastructure in East Asia will require up to US\$1.5 trillion over the next decade;

" Ensuring that rapid development does not increase the gaps between rich and poor, and that remote or disadvantaged populations are not left behind;

" Developing dynamic new social insurance schemes that respond to the needs of increasingly aging and urbanized populations. Unlike most industrial countries and many transition economies in East and Central Europe and the former Soviet Union, most East Asian countries do not have elaborate, state-supported systems of social welfare. An emerging area of debate is the extent to which the private sector can take on the provision of many of these social services; and

" Ensuring that economic success does not come at the cost of a ruined environment. There has been a large increase in awareness of the effects of environmental degradation in the region over the past decade or so. Increasingly, it is recognized that polluting now and paying later makes neither economic nor environmental sense. In Jakarta, the annual cost of air pollution has been calculated at about US\$600 million; in Bangkok, the cost is more like US\$2 billion. There are many examples of good environmental legislation in place. The problem is weak enforcement capacities in many countries- Going into the next century, there will be great pressure on water resources, forests, coral reefs and other threatened natural resources. A major effort is needed in the region to address these concerns.

The World Bank and East Asia

The development agenda I have just discussed is complex, and we do not think for a second that we have all the answers. There is a very great deal that we have to learn from you.

I am eager to hear how you see the issues of your region's development. I am particularly interested in your views on ways we can strengthen our partnership with the region. I speak for the World Bank. the

International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), which together comprise the World Bank Group. And I am equally eager to hear your ideas about how we can contribute to development in the most effective possible ways and to learn from your experiences.

We sense that a shared agenda for coping with these challenges is emerging within East Asia, resulting from the work of ASEAN, APEC and other regional institutions. But the resources that will be needed to tackle the agenda - intellectual, financial and managerial - are scarce. It is therefore crucial that we work together.

Last year we lent US\$5.7 billion throughout the region in support of activities ranging from water resources development, agricultural development and power expansion to education and environmental cleanup. We have some US\$25 billion worth of projects under implementation throughout the region.

I should also mention that in Fiscal Year 1995 we generated about US\$25 billion of business globally. There are significant business opportunities for Singaporean firms in consultancy services, supply of goods and equipment and civil works under World Bank financed contracts.

In some countries, our financial support is no longer needed; in fact, we made our final two loans to Korea just last year. Here in Singapore, the Bank lent only US\$179 million for projects in infrastructure, education and the environment between 1963 and 1975, the point when Singapore reached a level of national income that took it beyond the Bank's mandated support for middle income developing countries.

Even in some of the countries that need less and less of our direct financial support (e.g., Malaysia, Thailand, and to some extent, Philippines), there is strong interest in maintaining, even expanding, access to technical expertise and the economic policy work of the World Bank Group.

I have undertaken this trip because I believe that both the countries of the region and the World Bank can benefit from a deepened relationship.

I would emphasize several areas where partnership would be particularly beneficial:

First is the need for more collaboration in analyzing development experience. Before we can plan ways to overcome the challenges of development, we have to understand them in fine detail. Research and analysis are critical development functions. We made a start with this in the East Asian Miracle Study, but much more needs to be done. Our principle for doing analytical work in the region is that it will be done in collaboration with local institutions from the word "go." We have not given enough attention to these relationships in the past.

East Asia contains a growing range of world class research institutions, and the World Bank has already done a number of joint projects with them. These include the study, East Asias' Trade and Investment, which was

widely discussed with policy makers in all the major trading countries prior to the November 1994 APEC meeting in Jakarta.

We have published a study of East Asian bond markets that has been widely discussed. Local collaboration played a big role in this work. We have also collaborated with local research institutions in studies of infrastructure and innovations in higher education. Given the emerging challenges facing East Asia, it is important that we continue to combine our intellectual resources in more meaningful partnerships.

Second, we must continue together the attack on poverty and human suffering. We cannot forget that 80 percent of East Asia's population, or about 1.3 billion people (counting China), live in countries with an average per capita income of less than US\$700. By our recent count there are 400 million people in East Asia living either below or close to the line of absolute poverty. The most fundamental goal of the World Bank is to reduce poverty world-wide. In doing so, we have amassed a large amount of knowledge and expertise on how to do so. Our programs focus on generating growth through the private sector, as the major source of new jobs and the know-how that will pull countries out of stagnation. We also recognize the fundamental importance of developing the rural sector, where 70 percent of the region's population reside, as well as delivering social services to the poor.

We are working with countries throughout the region not only to root out poverty where it exists, but to anticipate human problems of the future, so that we can plan for them today. In doing this we are working ever more closely with partners in government, NGOs, foundations, and the private sector.

Third, we can work together in developing infrastructure. Infrastructure has always been among the Bank's chief areas of concentration and in East Asia our lending for infrastructure has been about one-half of the entire portfolio - about US\$2.7 billion in commitments in 1995.

The prominence of our commitments in support of infrastructure investments will continue, but East Asia needs far more than we or governments in the region have available. This is why more private sector involvement is critical both for entrepreneurial capacity, equity and to access the financial markets in more innovative ways.

The Bank can assist in several ways. To expand private investment for infrastructure, we are working with governments on developing clear and consistent regulatory frameworks. We can also facilitate dialogue between governments and the private sector. We can provide guarantee instruments to strengthen the confidence of private investors. These guarantees can be used either to enhance credit or cover specified sovereign risks. And we can assist with the analytical work and dialogue that will support regional infrastructure development, which we are doing now in helping develop the APEC Cooperation in Economic Infrastructure Work Programme for 1996.

Fourth, we can work as partners in developing human resources. The countries of East Asia all consider it a top priority to continue

improving their education systems and to upgrade worker skills in the context of an increasingly competitive international economy.

This is why our lending in the region for human resources development (including education, population, health and nutrition, and social sector projects) has tripled from its average levels in the 1980s to about US\$800 million in new commitments in Fiscal Year 1995. We consider it a top priority to work with local partners to ensure that the workforces of the future in East Asia continue to retain their competitive edge. We are forging new relations with NGOs and other private groups to improve the focus and impact of the Bank's work in these areas.

Fifth, we can work together to develop well-functioning financial systems. This is simply basic if we are going to see competitive market systems thrive throughout the region, and if we are going to allow entrepreneurs a chance to establish themselves. In the low income transition economies of the region, the highest priority is to develop sound core banking systems. In all countries there is an interest in the development of the capital market to mobilize long-term funds to support the finance of infrastructure and other long-term investments, including housing.

The Bank is working with countries throughout the region on reforms of their banking systems. In Indonesia, for example, we are supporting government efforts to strengthen the capital base of some of their banks; in China and Vietnam we are supporting efforts to establish domestic clearing systems. Recently, we have launched a Banking Sector Initiative that will upgrade and expand our professional capabilities to lend support for financial sector reform. In addition, IFC is actively establishing or strengthening capital market institutions, catalyzing strong contractual savings institutions (insurance companies, private pension funds) and pooled investment vehicles such as mutual funds and venture capital funds.

Sixth, we can be partners in information-sharing. As a global community, we need more effective means of sharing experiences on any number of topics - perhaps most urgently on foreign investment-related information. MIGA, the newest World Bank affiliate, has developed a product, IPAnet, which could be very useful in this regard. The IPAnet provides a means of sharing information from national governments, investment promotion agencies, public and private businesses, chambers of commerce, and business associations over the Internet.

Seventh, we can work together in providing for adequate social insurance mechanisms. The economic and social transformations taking place in East Asia mean that its populations are becoming older and more urbanized, just as traditional ways for supporting the sick, the unemployed and the aged are weakening. This is a major concern for countries throughout the region. The Bank has done extensive work on social insurance issues, and particularly in developing mechanisms for old age security. This is another area where we could combine experiences for the benefit of the region.

And lastly, we must act as partners in protecting the environment. Environmental problems in East Asia are both local and regional in scope. The Bank is working closely with governments in the region to develop standards and regulations that reduce the danger of environmental deterioration. We will continue working with local governments in the development of National Environmental Action Plans. We are committed to ensuring that the environment is a priority both in our policy dialogue and our support for projects.

In a number of these areas, there is much that a partnership with Singapore could bring to other countries. We would like to explore collaboration with Singapore in a range of technical assistance programs around the region. Infrastructure development and management, financial sector reform, housing programs, and human resource development are examples of areas where much can be learned from Singapore's experience. A second area for possible collaboration would be to tap Singapore's experience with policies and programs that promote the development of the private sector. A third area for cooperation is in the development of appropriate frameworks for private investment in infrastructure in the region. And finally, we can work together with your research institutions, such as the Institute of Policy Studies which has been such a wonderful host for our gathering today.

'The World Bank is an institution with a wide global and regional presence. It is uniquely placed to absorb and to communicate the stories of development success and broadcast them around the world. We can and would very much like to work more closely with Singapore, and to disseminate to our clients how you have arrived at your extraordinary success. At the same time, we can be of service to you by helping to expand your contacts around the world and by promoting access to new markets and investment opportunities.

I believe that through partnership with Singapore, we will increase greatly the effectiveness of our efforts to contribute to economic growth and poverty reduction throughout the region and beyond.

Thank you, and I look forward to our discussion.