

Trading for Results—Realizing the Promise of Doha, Keio University, Tokyo, Japan

Remarks by President Wolfowitz
October 12, 2005

Thank you, Dr. Anzai. This is my first official visit, it is my first official visit as President of the World Bank, but I was thinking back to one of my first ever official visits to Japan, which was in January 1983 when I came here with Secretary of State George Shultz on his first official visit as Secretary of State. And I was a brand new Assistant Secretary of State, and at the first official dinner we were all suffering from jetlag, and my boss, Mr. Shultz, gave a toast. To those of you who know him, he is a wonderful man, but he is not the most scintillating speaker. Halfway through his toast, my head landed firmly on my chest with my eyes closed, and his special assistant, an ambassador named Ray Seitz, poked me and handed me a note, and he said, "First lesson for new assistant secretary: never fall asleep during the secretary's speech." So I wrote a note back to him, "How did you manage to stay awake?" And he wrote a note back to me. He said, "Diplomacy is a crafty art. I was sitting on my fork." That is a true story and it is unfortunately immortalized in Secretary Shultz's memoirs.

There is another story that comes to mind, and let me tell it before I get to my speech. It is about the challenge of speaking across different languages, and actually across different cultures. There are not many Americans who speak Japanese unfortunately, and unfortunately I am not one of them. So I am impressed that so many of you seem to be able to follow me without the translation, and I am glad the translation is available for everyone else. But there are some things that are hard to translate because they represent cultural differences, and there is a story that I like that illustrates this. It is a story about an American consultant who was invited to give a speech at a company in Japan. To prepare for his speech he sought advice, and one of the experts told him, "You need to understand that in Japan people like it if you are very humble, so you should begin your speech with an expression of humility." So he did this. He began his speech by saying, "I'm not really the expert on this field. Probably many of you in the audience know more about it than I do. And I'm sure I'll make many mistakes, but I want to apologize in advance for any mistakes I make." At which point his Japanese audience burst into uproarious laughter. The poor man could not understand why they were laughing at his apology. But he staggered through his speech and finally got off the stage still blushing. The manager of the company hurried up to him and said, "I'm so sorry, Mr. Smith. But you have to understand, before your speech we briefed all of our workers, and we explained to them that Americans always like to start their speeches with a joke. So no matter what Mr. Smith says, be sure to laugh."

So sometimes culture matters, but actually if I think about the topic of today, which is how all of us can do more to help poor people, I think this is a subject that speaks to many cultures. And in fact I was so impressed when I visited Bangladesh recently. I visited a school for poor children in Dhaka to teach them vocational skills. In the class on computer repair there was a young Japanese who was teaching them how to repair computers, probably 25 or 26 years old. You think that is old; I think it is very young. He did not speak English, but he spoke fluent Bangla. So my translator translated our conversation from Bangla to English, and his dedication to fighting poverty was tangible. That is what I want to talk about today.

But I want to thank Keio University for giving me this opportunity to speak here. I know it is one of Japan's oldest and most prestigious universities, and I know it is an institution that is dedicated to intellectual growth and innovation. Keio has made important contributions to modern education here in Japan, and it has produced dynamic thinkers and leaders for our time. You have much to be proud of as you celebrate a century and a half of achievements. I am also grateful to the two cosponsors of today's event, the Foundation for Advanced Studies on International Development and the JETRO Institute for Developing Economies. Thank you very much. Both institutions play a vital role in cultivating a new generation of Japanese development professionals and advancing research on key global issues. During my visit here yesterday I had the opportunity to meet some students like yourselves who form the local chapter of Youth Development and Peace (YDP), which promotes dialogue on global issues among youth worldwide. YDP Japan is an energetic group that is active on many fronts. It is open to everyone, and they asked me to encourage all of you to join. I am happy to do so.

Today the international community has an unprecedented opportunity to make a difference in the battle against poverty. Anyone who faces the facts has to agree, there is an urgent need for action. Every day thousands of people living in extreme poverty, many of them children, die from preventable diseases. The scale of deprivation in Africa is particularly alarming. Since 1981 the number of Africans living on less than a dollar a day—think about it, less than a dollar a day. How could you manage to live on less than a dollar a day? - But in Africa that number has nearly

doubled in 24 years from 164 million in 1981 to 314 million people today, roughly half the population of Sub-Saharan Africa. For those who are trapped in this extreme poverty, the direction we choose will make a difference between a life of deprivation and suffering or a future with hope and opportunity. For too many it will be the difference between life and death.

Within the global community, Japan is playing a central role in fulfilling an important responsibility. Japan is the world's second largest bilateral aid donor. Through the impressive work of agencies like the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC), Japan is a big player everywhere in the world. For us at the World Bank Group, Japan represents the second largest shareholder in the bank and a key donor in all of the regions of the world in which we operate. The World Bank depends heavily on Japanese financial markets for our own borrowing, and I had the opportunity during this visit to thank the leaders of Japan's major financial institutions for this vital support.

Beyond all of that Japan's remarkable growth in the last half-century has had a strong positive impact on the rest of the world. Today Japan is the world's second largest economy. It is a major market for developing countries and a major source of development assistance. In the last few months we have seen great leadership from the so-called G8 countries, the eight industrialized democracies, on major issues on the global development agenda. Historic agreements have been reached to increase development assistance and to cancel the debt of the world's poorest countries. But successful development will depend on more than just aid and debt relief. It also depends on creating trade opportunities. Why am I stressing trade? Because trade promises to deliver the greatest long-term benefits for the poor. We can forgive as much debt as we like and provide more aid; but unless the poor countries of Africa and elsewhere in the world can trade and sell their products, they will not escape poverty. They will simply not be able to generate enough growth. Without growth, developing countries cannot improve living conditions.

No country knows the importance of trade for economic growth better than Japan. In the second half of the twentieth century, this country used exports and imports to achieve faster growth and productivity and dramatically raised the living standards of its people. Japan became the model for trade-lead growth. Today we have another model with the emergence of China, which has shown in the past few years an ability to challenge other countries for market share at all levels of the value chain from textiles to computers. China, and to a lesser extent India in services, are reshaping the global trade picture, and we need to engage directly with such booming economies if the process of adjustment they imply for the world is to be managed successfully.

The current World Trade Organization (WTO) negotiations under what is called the Doha Development Round present an historic opportunity to reach a deal on trade. When ministers launched the Doha Round in 2001 in the country of Qatar, they called it the Doha Development Agenda. It represents a promise that developing countries stand to gain from global trade reform. But this promise now hangs in the balance. In the lead-up to the next meeting of the WTO in Hong Kong this December, we face the risk of losing a deal or reaching a compromise that offers little incentive for development. No deal would encourage more protectionism; but even just a partial deal would be a huge missed opportunity to help millions of people lift themselves out of poverty.

On Monday the United States and the European Union (EU) made important offers to cut farm subsidies and trade tariffs in an effort to save the WTO negotiations. These initiatives represent important steps toward keeping the promise of Doha, but they are not enough. For the trade talks to succeed, all member countries must take part in this dialogue and show similar commitments. We must raise the bar to avoid the fate of what I would call "Doha Without Development". That responsibility falls on rich and poor countries alike. The rich countries, the developed countries, need to take the lead in opening their markets, especially in agriculture. That is where poor countries are losing important trade opportunities because of border protection and costly subsidies. The developing countries themselves, and especially the bigger ones like China and India, must propose deeper cuts in barriers to manufactures, agriculture, and services. It is not only in their own economic interests; it will also encourage trade among developing countries. And the international community, including my institution the World Bank, has to provide aid for trade so that poor countries can cope with the challenges posed by the adjustment process, and so they can take advantage of new trade opportunities.

Let me take a moment to explain how trade barriers are hurting the poor. Trade barriers deprive poor countries of markets to sell their goods. Under current conditions, developing countries are not getting the most out of world trade. Their exports face the most severe restrictions all around the globe. Protection in rich countries is highest in the products that developing countries produce, particularly agriculture and labor-intensive manufactured products and services. Of all of these, agricultural protection is particularly harmful to the world's poor. Three-quarters of the world's poor, remember, live in rural areas; so reducing barriers to agricultural trade in most countries can directly reduce poverty. The sheer size of these barriers is staggering. Rich countries today each year spend approximately US\$280

billion-let me repeat that, US\$280 billion each year -to support their agricultural producers. That comes out to more than US\$5 billion each week. Out of that, the EU accounts for roughly half, US\$133 billion; but the United States and Japan spend enormous amounts, as well-roughly the same (US\$47 billion for the United States and US\$49 billion for Japan). These amounts are particularly disturbing when you compare them with the levels of development assistance. In the national context, if you think about it, it means the United States is spending 2.5 times as much, US\$2.50, on its agricultural producers for every US\$1 that it spends on development assistance. Japan is spending US\$5 on agricultural subsidies for every US\$1 it spends on development. This support to agricultural producers is paid by taxpayers, and it is paid by consumers in higher prices. Poor consumers are disproportionately affected by these higher prices. So developed countries, their taxpayers, their consumers, also stand to gain from agricultural liberalization. Reform is fundamentally a matter of long-term self-interest.

What does this mean for Japan and the rest of the world? As a major services supporter, Japan stands to gain from greater liberalization of services under the Doha Round. Excluding trade among EU countries, Japan is the world's third largest exporter of services. Japan will also benefit from further liberalization of manufacturers. According to research done at the World Bank, the potential global gains from free trade and merchandise could reach US\$300 billion annually by the year 2015. A substantial proportion of that, US\$55 billion annually, would go to Japan itself. So everyone stands to gain if everyone makes concessions.

I do not underestimate the challenges here. Agriculture is a difficult subject for every country and for all developed countries. All major economies will face challenges opening their agricultural markets and reducing trade-distorting subsidies; but these are challenges that must be faced. To do otherwise would be to condemn poor countries to permanent dependency on aid, rather than help them create jobs for the poor. The Development Round will not deliver if the major economies continue to keep key areas out of the negotiations. They must look to the future with concrete steps, much like the ones announced this week, to remove barriers that block trade and block potential jobs for the poor.

This is not to say that trade reform will produce immediate results or that agreements in Doha will benefit every country equally. In fact, a few countries may even be hurt, like poor countries that today enjoy preferential access to large markets for sugar or bananas or textiles. The cost of adjustments can be daunting, and the international community must help. Developing countries will need assistance to help their entrepreneurs take advantage of new trade opportunities. And for trade to become a strong driver for growth, good trade policies also need to be combined with reforms, with capacity building, which means training people with technical assistance, and with investments in infrastructure. But aid for trade will only make a difference if it is backed by sound governance and strong policies on the ground.

I would like to conclude, though, on this note because what I think we are seeing in Africa today-and it is not sufficiently noticed-is that African leaders are increasingly stepping up to their responsibilities. We are seeing in Africa a new generation of leaders who are increasingly committed to economic reforms and to the fight against corruption. And it is making a difference. Some eight African countries have sustained positive economic growth over a number of recent years as a result of these efforts. Their leaders are taking responsibility and taking charge of their countries futures. At the World Bank, Africa is at the top of our development agenda. We are also expanding our support to trade. World Bank lending to trade facilitation is expected to reach US\$1 billion by the end of this fiscal year. We are working with others to develop an aid for trade package to help developing countries reap the full benefits from trade in the Doha Round and beyond. I am encouraged to see that a number of major donors have shown willingness to increase aid for trade in their bilateral assistance. This is an opportunity for other members of the G8 to set an example at a time when the Doha process needs leadership from the world's major economies. But time is running out for Doha. A swift and meaningful conclusion to the Doha Round is essential if we are to win the fight against poverty, disease, and hunger. We cannot settle for just any deal. We need to set our ambitions high enough so that a wide-ranging set of compromises are made and true benefits are delivered to the poor.

Japan's success has inspired many developing countries struggling to bring hope to their people. Only 50 years ago, let us remember, many scholars doomed this whole region to failure because they believed-it is hard to believe now that 50 years ago people believed-that East Asia lacked the elements for success. In the span of a few decades, Japan and the rest of East Asia have, in fact, experienced the greatest increase in wealth for the largest number of people in the shortest time in the history of humanity. It has made a difference. I was struck when I visited Pakistan in August, and we were meeting with some poor villagers from a small village called Dhok Tabarak who themselves had a small development success, and I asked them, "Could this success be repeated elsewhere in Pakistan?" I was surprised when this one woman, who did not speak English but knew what she thought and spoke very forcefully, said "Why not?" She said, "The Japanese have done it. The Chinese have done it. Why can't Pakistan do it?" That example is inspirational; but inspiration alone will not do it. We still have a lot of hard work for the World Bank and

other donors in Africa. But thanks to the new resolve of African people and their leaders, I think there is a chance to succeed. If the challenges of Africa today appear sometimes overwhelming, let us remember, for every Afro-pessimist today, there was an Oriental fatalist just 50 years ago.

Japan, as I said, is one of the major players in the donor community. Through your international commitments the Japanese people have demonstrated much compassion toward the plight of the poor around the world. If Japan can repeat in Africa the efforts it made in East Asia, then the prospects for Africa will be much, much brighter. Japan must continue to lead by reducing subsidies and opening its markets at this crucial juncture in history. We count once again on Japan's good will and strong standing in the global community to play an active role in the Doha Round and to match and raise the commitments and proposals of the other developed countries. It is only through this collective effort, that the Doha Round can become a true development round. It is an opportunity we must all seize. Thank you very much.