

THE WORLD BANK

PRESS CONFERENCE
WORLD DEVELOPMENT REPORT 1999/2000
"ENTERING THE 21ST CENTURY"

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PROCEEDINGS

MS. ANTSEY: Good morning, everyone. I think we'll kick off now, if we may. Welcome to this press launch of the 1999/2000 World Development Report, "Entering the 21st Century." I hope many of you have already seen it.

I have been asked to say that this picture on the front, in case you're interested, depicts ancient Chinese symbols representing a doorway, so it's particularly apposite, given that it's called "Entering the 21st Century."

Just some housekeeping details. This press conference and the report is embargoed until 3 o'clock our time, which is 2100 Europe.

Let me just start off with some quick introductions. I am Caroline Antsey. I am Chief of Media Relations for the World Bank. To my left, who needs no introduction, is Joe Stiglitz, our Chief Economist and Senior Vice President; and to his left is Shahid Yusuf, who has headed up this report and who will be making some introductory remarks after Joe kicks off.

So, without further ado, I hand over to Joe.

MR. STIGLITZ: Well, thank you all for coming. This report begins with an overview of the development landscape on the eve of the millennium, and it shows a dramatically changed landscape from the one in which the World Bank first emerged as the premier economic development institution in the world.

Looking back over the past 60 years, we have learned a lot. There have been phenomenal successes and there have been failures. We know today that development, equitable development that reduces poverty, is possible but it's far from inevitable.

The number of poor people has risen worldwide, and in some regions the proportion of poor has also risen. The total number of people living on less than \$1 a day has risen in Latin America, South Asia, and sub-Saharan Africa, Eastern Europe, Central Asia, and the Middle East and North Africa, while in some of the other regions the percentage of the total population living on less than \$1 a day has fallen.

Success in East Asia provides some notable lessons in successful development strategies. All East Asian countries have a much higher rate of savings than other developing countries. Between 1990 and 1997, gross domestic savings in the countries of East Asia and the Pacific was 36 percent of GDP, compared to 20 percent in Latin America and the Caribbean and 17 percent in sub-Saharan Africa. East Asia also managed to invest their savings productively, and the returns remain high even though the savings rates were very high.

Similarly impressive has been the decline in the rate of poverty. Roughly 6 out of 10 East Asians lived in poverty in 1975. This figure dropped to about 2 out of 10 in 1995. Indonesian figures were equally impressive. They dropped from 64 percent in 1975 to 7 percent in 1997.

The global financial crisis has illustrated that even countries with good economic policies are not immune from severe economic downturns. All things considered, we have made significant gains in our understanding of what can be

achieved through a more comprehensive approach to development. This has been reflected in successful World Development Reports over the past several years, the last two being on the role of the state, and knowledge and information for development.

This year report charts the way to the new millennium by analyzing the contours of the new landscape of development. This year we focused on globalization and localization, two forces which we believe will fundamentally alter the development landscape over the next several years.

This report, published on the cusp of the millennium, crystallizes our thinking on globalization and localization. Globalization can be thought of as a giant wave that can either capsize countries or carry them forward on its crest. Localization creates a situation where local entities--the crew of the boat, if you will--are free to exercise individual autonomy but have the incentives to work together.

The most crucial issues of the next several years--poverty, population, food, security, water scarcity, cultural preservation--will be confronted against a backdrop of constantly increasing globalization and a greater demand for a more meaningful say and participation by local and regional communities in issues that affect them directly. The 1999/2000 WDR becomes, therefore, the touchstone of our thinking about the early decades of the 21st century.

The report was prepared by a team of specialists led by Shahid Yusuf and advised by a panel of experts from the World Bank and from various academic institutions, and involved a large amount of consultation throughout the world. Without further ado, let me turn it over to Shahid to present some of the more detailed results.

MR. YUSUF: Thank you very much, Joe, and good morning and welcome. Joe has already provided you with the framework of the report, and so I'm going to get on into the core theme of the document.

Globalization and localization are together going to revolutionize the prospects of human development in the 21st century, or they will increase the likelihood of chaos and human suffering. The message of our report is that if the winners in developed and developing countries alike are going to greatly outnumber the losers, then there will be a need for strong and effective institutions.

The world is becoming smaller and more complex. Globalization is knitting countries together, but localization is spawning an era of local politics. Together, these forces are challenging the monopoly of central governments to make national policy.

Like globalization, localization tends to be a mixed blessing. Where it is successful, it can lead to responsive and efficient government, as we have in the case of Uganda a situation where the decentralized milieu has made for much more effective and transparent provision of funds for health and education services.

We predict that localization could lead to far less close business dealings and calls for much greater accountability. But localization can also lead to overburdened governments which are, because of the lack of organizational capacity, are unable to deliver services in sufficient volume and of sufficient quality. And here again we have in the case of Ethiopia a country in just that kind of a situation.

Localization can also lead to macroeconomic instability, where the rules are such the provincial authorities or municipal governments can borrow excessively and spend excessively. And the three major fiscal crises in Brazil point to just such a slippage of rules.

In the extreme, localization can lead to ethnic strife and to civil war, as we can see recently in the case of Kosovo.

For either globalization and localization to benefit development requires effective institutions or rules to facilitate coordination, to facilitate better government, and to provide the basis for increased participation at every level. There are many examples of such rules.

At the global level, there are the rules that define the World Trade Organization. The Basel Accords provide the benchmarks for banking systems in most countries of the world. At the national level, there are the constitutions of countries, there are electoral rules, and there are rules that govern the relationships between central government and subnational entities.

Having explained sort of the main themes of the report, let me now get to a few of the specifics.

A common response to localization is to decentralize functions and to devolve authority to subnational entities, in other words, to create rules that lead to a parceling out of authority, responsibility and accountability down to lower levels of government. Almost all democracies, as you can see from our slide here, have now opted for local elections.

Even in China, where the Communist Party holds sway at the national level, elections are now being held in half of the country's nearly 1 million villages. We can see localization unfolding in an orderly way in the United Kingdom, for instance, witness the elections in Scotland; or in a much more chaotic way in the Balkans and in parts of Africa.

The power centers of this decentralizing world are going to be the increasing numbers of ever more populous cities. As you can see from the slide, two-thirds of the world's population is going to be living in cities, and these cities can be the locomotives of development in these countries, in developing countries.

You can take the example of Korea and of Thailand, where the main cities are really the driving forces of the economy, but only if the cities are in a position to provide services of requisite quality, amenities, and infrastructure. And here again, I mean, there is an example in Quieritiba in Brazil of a city that has actually risen to this kind of a challenge and provided the services.

Now, in this kind of a situation the central government can be very helpful, and it can be helpful in providing the overall business climate and a situation of openness which allows the city to go ahead and compete for resources and business in an open and competitive milieu. But the central government, and we indicate in the report, should try and avoid favoring one province or one municipality over the other, but actually to work towards a fairly level playing field where the cities can get on with trying to become more prosperous.

What our research has shown is that cities do not have to become wealthy in order to be able to provide good services. As you can see from the graph, even at fairly low level of income there are cities that have been able to provide very good services, so they do not have to wait until they are in the \$5,000 and \$6,000 per capita range.

The dynamic cities of the future, and even the dynamic cities currently, are the ones that have been most effective in setting up partnerships. And what our research shows is that there are many, many examples of such effective partnerships between local governments, between municipalities, and between others, NGOs, community groups, the private sector, and such like.

You can see that we have got several examples, and this is just a small subset of them, and let me just single out one of them. The Orangi scheme in Karachi in Pakistan is a very striking example of a case where an NGO, in participation with a local municipality, has been able to provide sewerage services for 1 million households in the city, some of the poorest households in the city, and this is being repeated in many other parts of the world, and we have indicated that in the report.

Let me now turn to globalization, of which we look at three main strands. This is trade. We look at financial flows, and we look at the international environment.

Take trade. The GATT, WTO, has created a rule-based environment which has been tremendously important for the rapid growth of trade in developing countries. Again, as you can see from the chart, the red line shows how rapidly the ratio of trade to GDP has increased in developing countries. And it is extremely important that this momentum be maintained, but the momentum will only be maintained if this rule-based environment is extended to embrace a wider range of services, because service trade is growing much faster than trade in goods, and to embrace a variety of agricultural products that are of importance to developing countries.

And what we say in the report is that this kind of rule-based environment is going to be able to be expanded in the forthcoming Millennium Round if developing countries are able to represent themselves in these international fora and participate most effectively in these fora.

But, unfortunately, very few developing countries have the capacity and expertise to represent themselves effectively in, for instance, the roughly five committee meetings a day that are held at the WTO on an average day. So it becomes very important for them both to build up this expertise and to pool their resources, where that is possible, and also to draw on the technical assistance and research that has been done by international agencies and been disseminated through the integrated framework which we discuss in the report.

Let me turn now to capital flows, which is another extremely important facet of globalization. One interesting statistic about this is that if you look at international data transaction, fully 80 percent of these represent financial transactions, so this is of something which is of extreme importance in the globalization process.

But side-by-side with capital flows, we also see an increase in the number of banking crises. Banking crises have risen from, as you can see from the slide, from 43

in the 1980s to 66 in the 1990s, and these crises have become extremely expensive, in some cases costing countries as much as 40 percent of their Gross Domestic Product.

In the report we offer a number of lessons. Let me indicate a few of the most noteworthy ones. One of them is that it is important for countries to try and manage short-term capital flows, which tend to be much more volatile, and to try and increase the share of the longer-term flows, such as foreign direct investment, by working on a variety of incentives.

Secondly, we indicate that it is vitally important for regulations, banking regulations of various kinds, to be increased, and to take steps to minimize the likelihood of regulatory forbearance. In a case study on Hungary we try and spotlight this very much in the last chapter of the report. There is also advantages in improving corporate governance and increasing private incentives to try and minimize crises by, for instance, using subordinated debt.

And, third, we indicate that there is the advantages in much greater policy coordination within regions where countries are interlinked, and this has been brought out very clearly by the recent East Asian crisis.

Let me turn now to the international environment, which is everyone's concern, and it's especially a concern for developing countries because, as you can see from the slides, because developing countries are going to be the most important consumers of energy, of resources, and the largest emitters of carbon. In fact, if you look ahead to 2015, China is going to exceed, in terms of carbon emissions, the United States.

We identify in the report two key priorities in the area of international environment. One of these is climate change. The other is biodiversity. And what we show in the report is that the whole effort to try and derive international institutions to manage the environment has been a slow and difficult process. The political economy of this is extremely complex.

However, there are some important success stories, and perhaps the most important one is the Montreal Protocol which was introduced in order to contain the release of ozone-destroying substances. From the Montreal Protocol we have extracted three lessons that can be applied to other aspects of the environmental management.

One of these is the advantage of trying to achieve a scientific consensus on the facts of the case. That seems to be most important. Secondly, it is vital that countries work together to derive rules that can be equitably applied over space and time. And, thirdly, it's really vital for there to be mechanisms to monitor and enforce any agreement that is reached, so that everyone knows that they are being treated fairly; and, secondly, to have mechanisms that will transfer both resources and technology from developed to developing countries.

But that's really not all. We also show in a lot of detail how important it is for countries to take steps at the national level; that there is a lot they can do by reducing subsidies for energy so as to reduce energy intensity of activity; that it is important for them to avoid subsidies of things like logging which is destroying forests; and that it is important for them also to take a lead in doing research in areas of renewable technology, for example.

Let me try and sum up. Globalization and localization are changing the development landscape, and that is really a given. It's something which is happening, and many people are fearful and pessimistic about what is going to be happening. But we think that by carefully crafting institutions, we can harness the forces and derive benefit for development.

Institution-building, for instance, can ensure the expansion of trade. It can minimize the risks of external shocks. It can contain the pace of ecological change. It can ensure that people, especially the poor people, have voice and that their rights are protected. And by good rules can lead to thriving cities that deliver the kind of services which are needed in order to lift the poor out of poverty. And as we know, increasing numbers of the poorer people are going to be concentrated in the cities, and they will need the good institutions in order to make sure that they have a good life.

So what we do in this report is really voice a call for action. We're saying that countries, local governments, local leaders, the private sector, NGOs, and of course the international agencies must all come together to work to build these institutions that will make sure that life in the next century, the 21st century, tends to be much better, more prosperous, than in the century that is coming to a close.

Thank you very much.

MS. ANTSEY: Thank you, Shahid. I think we'll now open it to questions. Before we do, can I just ask everyone to identify themselves and their affiliation? It's very bright up here. It's very hard to see. And wait for the microphones that people will bring around.

Can I also say that out of deference to Shahid and his team, who have labored long and hard for the last 12 months on this report, we are going to confine questions to this report. You will all have a chance to put questions to Jim Wolfensohn next Tuesday when he is hosting a press conference on the kickoff to the annual meetings, and there you can deal with a whole host of issues, but we would like to focus today on the report.

So, yes, in the second row here. Could you wait for the mike to come round?

MR. PARASMAM: Parasmam, Press Trust of India. In this report we find out that the gap between the rich and the poor is increasing within countries, and I presume also between countries. What remedy [inaudible] to deal with that, and [inaudible], have expertise to address countries on these issues, or to acquire the [inaudible] staff in order to reach all the countries?

And, secondly, Mr. Stiglitz opened the speech [inaudible] on East Asia. Is East Asia still a model for you? Because in East Asia where poverty has very rapidly decreased, it has also very rapidly increased.

MR. STIGLITZ: That's a good question. Let me first begin about the caliber of the people at the World Bank. I think the caliber of the people at the World Bank is very strong. I think there has been a spirit of inquiry into what are really difficult issues.

I think we all should have a certain degree of humility in recognizing that there aren't easy prescriptions. If there were, we would have had more success in development. But there have, as I said, there have been some successes, and East Asia highlights the fact that there have been in the last 30 years some very rapid decreases in poverty and increases in growth. Also, the crises reflect that there can be a kind of fragility even in the presence of a success.

Let me talk a minute. The first chapter of the WDR does address some of these issues, but obviously they are very broad issues, the ones that you raise. In terms of the gap between the rich and the poor, both within countries and between countries, I think the report emphasizes the change in thinking that has occurred over the past few years, towards first a comprehensive approach to development, a recognition that the kind of simple panacea, single-faceted approaches, that the problem of lack of development was lack of capital, or the problem of lack of development was lack of human capital, or the problem of lack of development was trade barriers.

All of those single-faceted approaches we recognize are part of the story but not the whole story. And so that is one of the reasons why the Bank is emphasizing in its strategy a much more comprehensive approach which needs to be adapted to the situation of each country. And in particular we are now recognizing the importance of issues like governance and inclusion and knowledge that were not emphasized as much earlier.

The fact is that the report also illustrates that some countries have done a lot better at reducing poverty than other countries, even given the level of income that they have. In other words, countries that are poor are going to have a harder time, but we have demonstrated that--the experience demonstrates that trickle-down economics doesn't work, and that there are policies that you can say are more inclusive, more pro-poor, and that those are the kinds of policies that we are increasingly trying to focus our attention upon, and that these concerns really do deserve explicit attention in our development strategy.

Finally, let me say about East Asia, in most of the countries, while there has been a setback from where things were in '97, one shouldn't lose sight of the basic fact that the countries today are far, far better off than they were 20 years ago, 30 years ago. The poverty rates are much lower than in the rest of the world. As I say, there have been enormous gains, a little bit of losses in the last couple of years but there are still enormous gains. And I think some of us have been very impressed with the speed with which countries like Korea and Malaysia have recovered.

Many of the ingredients that went into the success of East Asia I think are--provide lessons that all countries should bear in mind. I mentioned in my introductory remarks the importance of high savings and figuring out ways of allocating that savings efficiently.

We have become more aware of the importance of institutions, of the dangers that arise from inadequate regulation of financial institutions, the dangers that arise from short-term capital flows that can flow in and flow out and really destabilize an

economy. So we have learned a lot about the sources of instability as well as the sources of economic growth.

So my sense is that East Asia has actually taught us lessons on both sides, and that we are in some sense much better prepared, as we go forward in the next century, for thinking about how to approach development.

MS. ANTSEY: Can we just go to the woman there?

MS. BASU: My name is Arin Basu. I'm with Radio Free Asia. Getting down to some specifics of the report, one issue that was probably implicit in a lot of what you said but not specifically mentioned is political will, and a subset of that is implementation.

I just got back from doing a project in Cambodia on fisheries management. And in a lot of countries the real problem with a comprehensive approach to development is that the different pieces of the puzzle don't often fit, whether you talk about illegal logging in Cambodia or whether you talk about management of fisheries, the existence of laws and the implementation of it.

The question here is, is the World Bank using some kind of policy where you're working with governments on influencing political will in a way that that actually trickles down through the regions and the provinces in a way where this comprehensive development program can actually be implemented?

MR. STIGLITZ: Well, I think there are many aspects, trying to answer your question. First, I think one of the things that this report highlights and that the Bank has been emphasizing is the importance of participation and the importance of transparency and openness, and that those can affect the political will within a country; and, more particularly, that participation can affect positively the success of a project that we undertake.

For instance, one of the area research projects focused on water projects in India, where we showed--where the research showed that those projects in which there were more participation were much more successful than those without. Pointing this out to countries where there is a commitment to try to grow faster and to reduce poverty leads them to think about how they can most effectively achieve their objectives.

And so by trying to focus on what are some of the factors that in other countries have contributed to success, I think it helps resolve and enhance the political will that governments have. One of the themes of this report is localization, and localization, when it works, provides a venue for greater participation and in that sense enhances the political will.

Shahid, did you want to add something?

MR. YUSUF: I think, just to elaborate on what Mr. Stiglitz said, what we are showing in the report is how, one, authority and responsibility can be devolved downwards and devolved downwards in an effective way. And by "effective way" we mean that it doesn't end up, power does not end up being concentrated in the hands of a limited elite, but is actually distributed more evenly in the population.

And in the process, what we expect to see happening is the gradual build-up of implementation capacity, of organizational capacity at the local level. This is really

the trigger mechanism, this devolving of authority, because initially you will find relatively few results in a place like Cambodia or elsewhere, where I have worked. But over time one sees this as the road leading to this implementation capacity. Without the initial political step, nothing like this would happen.

And just on--well, I think I'll stop here.

MR. STIGLITZ: Let me just add two very brief points. One of them is, I think we are increasingly aware that what makes good--that, first, what is required for success in development is good governance. Part of good governance is not just good laws, a good judicial system, for instance, and that one of the areas that there's going to be emphasis over the coming years is trying to strengthen the judicial system. That's not just a task for the World Bank but it's a task that will entail, I think, all of the development community.

And, secondly, that the issues of the design of policy and implementation really can't be separated, and that as we think about policies, we have to think about policies that are appropriate to the countries and their capacity to implement them. I think that in the past there may have been a little bit too much disjunction between those two.

MS. ANTSEY: The gentleman in the middle here.

MR. ESQUIVEL: Jesus Esquivel from the Mexican News Agency. I have two questions, one on the banking crises. You mentioned in your report that in the '90s there were 66 crises in the banking system. My question is, how was involved the corruption of government in these cases?

And especially in Mexico, money from the World Bank has been used to bail out private bankers. What is the World Bank doing against these? Is it applying penalties to these countries, to the governments? And you mentioned they are always working, [inaudible] on these issues. Mexico is on the list of the World Bank working on corruption. Are you going to give us some details of that work?

And also on Mexico too, you mentioned the trade as one of the bridges to overpass or trying to give more opportunities for the poor people. Mexico has advantage that we called NAFTA, but besides NAFTA, the gap between rich and poor, it's bigger in the last--or has been increasing in the last two years. Why?

MS. ANTSEY: Joe, do you want to take that on NAFTA?

MR. STIGLITZ: Okay. Let me say something about NAFTA, and Mexico more generally. The crises, one of the reasons that we are so concerned about crises is that they both have very adverse effects on economic growth and they often have very adverse effects on the poor, who are least able to bear the downturn in income.

Developing countries typically have very weak safety nets, and one of the things the Bank has been focusing on is trying to develop those safety nets. But we have to remember that even in developed countries, safety nets for the informal, are relatively weak coverages, and then our unemployment insurance. And those are precisely the sectors which dominate in developing countries. So the challenge of developing robust, strong safety nets is a very difficult one. And therefore, as I say, we should be, I think, terribly concerned about crises because they have such adverse effects on the poor.

It typically takes--it often takes a long time for a country to recover. Our studies show that, for instance, the growth of a country after a crisis is typically suppressed for up to five years after the crisis, that it doesn't resume to where it would have been without the crisis. And in the case of Mexico, real wages fell dramatically in the crisis that occurred in '95, and it's just now beginning to recover.

And so let me make two other remarks. I think we've recognized that one of the reasons, one of the lessons that comes out of the Mexican crisis, was what really led--some of our researchers pointed out what led to the recovery in part was NAFTA and the opening of trade, the fact that the United States, the neighbor country, was experiencing a boom, and that was one of the factors that led to the growth.

So it wasn't NAFTA that actually led to the poverty, but it was NAFTA that led to the recovery and contributed a great deal to the recovery, the opening of trade, combined with the fact that the U.S. was going through, as I said, through a boom.

The weaknesses of the banking system have been a drag on the recovery of the economy, and Mexico has had the good fortune of being in close proximity to the United States. It has meant that many of the export industries have been able to draw upon U.S. financial sources for financing their growth and their expansion. But the weaknesses in the banking system have had a negative effect on the recovery, the robust recovery, in the non-trading sector that can't draw upon--and especially small and medium size enterprises--that can't draw upon the international financial markets.

MS. ANTSEY: The question, the gentleman in the white shirt?

QUESTION: What about the question of corruption?

MS. ANTSEY: On corruption, Mr. Wolfensohn loves to answer questions on corruption, and I suggest you put that one to him next week.

QUESTION: [Inaudible] for the World Bank.

MS. ANTSEY: Well, I don't think that Mr. Stiglitz is in the position to answer that with the kind of detail that you would like, so I think for a full answer we should deal with that one next week. I'm sure we will.

The gentleman in the white shirt.

MR. MOORE: Thank you. Dennis Moore, Nightly Business Report. You talked earlier about the need for controlling capital flows, limiting short-term, encouraging longer term. There are stories appearing now about the bargain hunters in Asia, you know, people looking to invest, maybe perhaps in Latin America as well. What kind of feel do you have for private reinvestment in these crisis countries, once it has fled? What happens now?

MR. STIGLITZ: Well, I think there are two aspects of this. I think there's a fundamental distinction between short-term capital flows that typically are in the form of deposits in a bank that can come in and out, and foreign direct investment.

It's very hard for a country to build factories on the basis of short-term volatile capital that can come in and out, and so it's not surprising that research findings have shown that capital market liberalization aimed at that short end is unrelated to economic growth, does not support economic growth, but is related to economic instability, does result in greater economic instability.

On the other hand, foreign direct investment is far more stable over the cycle and does promote economic growth, and therefore a key objective of policy is to try to direct the flows of capital into these more productive and away from the less productive.

Obviously, when the economy goes into a recession, there is a slowdown in both forms of capital. As these economies recover, I have a great deal of confidence that there is going to be a resurgence of capital, in the foreign direct investment kind. Now, the purchase of assets that already exist is in some ways a little bit between those two, because it isn't like it's bringing new capital but in many cases it can bring new managerial skills.

I think we ought not to underestimate the quality of management, for instance, in East Asia. That management led to the upscaling of technology over a 30-year period, and led to enormous growth over those 30 years. So the fact that they had one economic downturn that had very--that reflected in some cases excessive leverage, but not necessarily bad technical managerial skills, should not mislead us to say that the management was terrible.

I think we need to try to delineate. There were some mistakes, and I think they have learned from those mistakes, but on the other hand there have been 30 years of success. And in fact, if you look at the number of recessions in East Asia, it is far fewer than has occurred in that 30-year period in the OECD.

So one has to look at these things from a perspective not of what happened in the last two years but from a 30-year perspective, and I think as the crisis--as we have gotten a little bit of distance from the crisis, as we have seen the quick recovery in Malaysia and in Korea, I think we're going to come to a better appreciation of the underlying strengths in those economies.

MS. ANTSEY: Let me go to the middle of the back row there, Damian, and then we will go up there, and then down at the front here.

MR. MILVERTON: Damian Milverton from Dow Jones. Just on a related issue, page 7 of the report would seem to indicate that some form of capital control, namely a Chilean-style inflow control, is not necessarily a bad idea. It seems to stick out as one of the more micro suggestions in an otherwise very broad report. We have also had last week the IMF saying that Malaysia very deftly handled its imposition of controls. Can we read this as sort of a moderation of a view, or is this more a case of just saying that, you know, case-by-case scenario, that you can apply these as you would see fit?

MS. ANTSEY: Well, I think there has been a very fundamental change in mind-set on the issue of short-term capital flows and these kinds of interventions, a change in mind-set that began, as I say, I think two years ago, an awareness that those short-term flows generate extranationalities, generate social risks that are beyond those of the private risks that an individual bears, where there is--I'm sorry for using this jargon, but the fact is that when capital quickly moves in and out of a country, the whole country is affected, not just the people who were the two parties to the transaction.

That awareness has led people to say, are there ways to stabilize those flows? And the successful experience, the relatively successful experience of Chile has led to an openness, I think, for people to say, "Yes, we ought to be considering it." Chile has a very sophisticated administrative capacity, and so obviously one has to match the appropriate tools to the nature of the country's administrative capacity.

I think in the context of Malaysia and the fact of the quick recovery in Malaysia, the fact that the adverse effects that were predicted, some might say by some people wished upon Malaysia did not occur, is also an important lesson. We have looked at the data, for instance, for foreign direct investment, and that was not adversely affected at all by the imposition of the controls.

We worked with Malaysia to convert the intervention from a direct control into a price-based mechanism, partly because many of us believe that price-based mechanisms are more efficient. And a price-based mechanism, although basically an exit tax, allowed for a smoother exit from the intervention, and that may be one of the reasons why when it was lifted, as they promised it would be, it really--there was no disturbance to the market.

One also again has to recognize the very careful way that the intervention and exit tax or exit controls were imposed by Malaysia. They were very sensitive to the concern to try to maintain the long-term capital flows, the foreign direct investment, and so they were really directing their interventions for short-term speculative flows. And it seems like they succeeded in targeting it correctly, which I think is an important that governments with good administrative capacity can fine-tune some of these procedures, particularly for short-term interventions in a very unstable world.

MS. ANTSEY: Can we go up to the back there, and then down here?

MR. WOOD: Barry Wood, Voice of America. Concerning development strategies, you have observed that while China's economy doubled in the past decade, Russia's decreased by 50 percent. When you relate these lessons of 50 years of development, how do you plug Russia into that? And also, what about the effect of capital flows, short-term capital flows in terms of the problems they've had in Russia in the last 13 months?

MR. STIGLITZ: Well, I think in a way the Russian experience illustrates many of the things that we have been emphasizing in terms of our development, what we view as the new development strategy, the comprehensive approach, that what is needed is good governance, judicial systems, a whole variety of things that were talked about but perhaps not emphasized as much as they might otherwise have been.

Everybody was aware, let me say, that you needed to have all these factors involved that we talk about in the comprehensive development framework, but I think there was a hope on the part of some individuals that somehow you--that these would develop on their own, quickly, in response to the opportunities provided by the market; that in some sense, some individuals argued, for instance, that once you privatized, the demand of those with private property for good judicial systems would solve the governance issue. I think we're a little bit more skeptical about that sequencing at the current time, and we are much more aware at the current time of how important

these issues of governance are, and how they have to be emphasized in some cases very early on in the development strategy.

Did you want to say something?

MR. YUSUF: A couple of other things we can add. In the Chinese case you also see examples where existing institutions were used very effectively. Local government institutions in particular remained very strong and have played an extremely proactive role in the whole development of the country, and that has been very important. And their relations with central authority, while sometimes there have been certain dynamics to them, on balance have led to a very positive effect on development in the country.

In the case of Russia, what we also mentioned in the report is that the fact that fiscal decentralization was--that political decentralization preceded fiscal decentralization, may also have had an adverse effect on macro instability.

MS. ANTSEY: Down here in the front row. Just wait for the mike to come.

MR. SERRICHIE: Sergio Serrichie from [inaudible] Economic Argentina. You referred to this need for more coordination within regions to avoid crises, and referred to this also for the strength of regional trading agreements. And which lesson can you draw from this, from this study, for the case of Argentina and MERCOSUR, the regional trade agreement in South America, which is going through some strains because of the different trade agreements and having problems?

MR. YUSUF: In the report we say a number of things with regard to regional coordination. One is that we indicate that in crisis situations it would be advantageous for countries to essentially have crisis accords. Countries that are interlinked and in a sense could suffer from contagion, should a crisis hit one of them, could create these crisis accords, pool their foreign exchange results, and be in a position to assist one another in the event that a shock hit a particular country.

We also indicate that it might be advantageous in situations in Latin America and East Asia if countries within a region got together and established particular standards with regard to regulation and supervision of their banking system, standards that perhaps even exceeded the international ones and therefore created an environment, a climate which gave much greater confidence to investors within these economies.

In the case of these regional trading agreements, what we are saying here is, in some instances, in many instances these regional agreements create the kind of openness, create the kind of rules that will lead to a much more rapid increase in exports, and those are advantages for development. So in general there is, and the East Asian crisis seems to perhaps underscore this to some extent, is that these regional arrangements can supplement and perhaps reinforce various kinds of multilateral arrangements that are slowly gathering force.

QUESTION: [Inaudible.]

MR. STIGLITZ: Well, the point you raise, obviously when different countries within a region have different exchange rate regimes, it raises trip tensions.

MR. SOTERO: Paulo Sotero from Oestado de Sao Paolo in Brazil. After reading three chapters of this, I notice on the back here we have this little slogan, "Our dream is a world free of poverty." And thinking about the report, which is very realistic, does it not make sense that the number of poor people globally is growing and will continue to grow, and the distance between rich and poor is growing and probably will continue to grow. It calls attention to the fragility of some of the gains.

And I'm looking for a catch phrase. There is--I came to the conclusion that what you are saying, your warning is that despite all the progress, at this point the battle of development is being lost. We are moving backwards globally. I wanted to know if that is fair, a fair assessment.

Second, a more specific question. There is in one part of the report a mention to the fact that technology is making it possible for wealthy countries and to lose interest in policies that benefit the whole society. I want you to elaborate on that, because it may be true but it's also pretty suicidal. Do you have a comment?

MR. STIGLITZ: Let me say that I live in more optimism than maybe the--the way I look at it is that what the report is trying to do is twofold: one, to pose clearly the challenge that we face. The fact is that we aren't winning the battle against poverty. Poverty is increasing.

On the other hand--and there are other dimensions that I could have emphasized, that highlight some of these disturbing aspects. For instance, the growth of AIDS in Africa which is shortening life spans. The increase in poverty in Russia, and the former Soviet Union more broadly, that numbers--where at the beginning of the transition somewhere between 2 and 4 percent were in poverty.

A study that we did in the last year in Russia showed that close to 50 percent of the people in Russia were in poverty, on a \$4 a day standard, and of children, almost 60 percent were in poverty. Those are just very striking statistics that are called to the world, because we know that high levels of poverty can lead to--and growing poverty can lead to enormous amounts of instability, political instability and social instability, strife. So that even if we did not have a humane concern about these numbers, we should have a self-interested concern about global peace.

On the other hand, as I say, while these are very disturbing, I also want to convey a sense of optimism, because I think we do have within our reach the ability to improve people's lives, and there have been regions, areas, countries, where there has been marked progress. That is even true in Africa, where for instance there have been countries that more recently have been growing at a steady rate, where there have been policy reforms.

So that overall I would like to convey a sense of a balance between, you know, that--and this call is one that says, you know, the international community really needs to renew its commitment to support the development effort. HIFIC, the debt relief for the poor, is part of that, but we have to go beyond that and have a much broader commitment. ODA money has been declining for 50 years, and we are now in a position where I think we can use the funds more effectively, and the needs are greater than ever, and yet the amounts are falling.

Do you want to say something?

MR. YUSUF: What I would like to do is to echo what Mr. Stiglitz says about the progress being made in various places. However, in the report we do recognize that while there is substantial progress, and in absolute--in relative terms poverty may be declining, in many parts of the world it is growing.

And what we spotlight in the report is the trends in cities, in urban areas, which are going to be the place where most of the population is going to be concentrated. And here, in parts of the world, in Africa and even Latin America, there is an increase in poverty in the cities. There is an increase in malnutrition, and there is increase in infant mortality in slum dwellers in cities.

This is in a sense counterintuitive. In the past when people moved to the cities, there was generally an improvement in the quality of life, in longevity and so on. You can see that in the statistics on India, for instance. The reversal of this is significant and it is very disturbing.

However, what we have done in the report is point out a very large number of instances where cities have been taking steps, introducing policies, institutions and so on, to try and improve the situation. And you know what we have identified is, one, the change in mind-set with regard to participation between local governments and others.

We're talking about increasing emphasis given to training in micro credit schemes. We're pointing out various places where city governments have taken the lead in providing mortgage, housing

mortgage services to people. We are talking about situations where, for instance, in Bangalore, the citizen scorecard allows individuals to comment on the performance of government. And we are talking about a whole variety of contractual arrangements that are emerging at the grass-roots level that are going to, I hope, improve the quality of life of the city.

You mentioned also about the fact that in some places the rich, the elite, are able to sequester themselves or isolate themselves from the rest, and to a significant extent, that is happening. It is possible. The technology does allow it. But as I'm sure you well know, the rich cannot completely isolate themselves. Crime, kidnapping, reaches out for them. And to the extent that the quality of life for the general population of the city does not improve and services are not extended to all of them, the rich can never completely isolate themselves. And one reads about this in Manila, in Taipei, in all parts of the world, where the rich are touched by the squalor and unrest in the city in which they live.

MR. STIGLITZ: Let me just add one thing. I know that most of you have not had a chance to work your way through the whole book yet, and the Chapters 6 and 7 devoted to the cities highlight a set of issues, I think, that really do deserve more attention. The fact is that we used to think of lack of development as a rural phenomenon, poverty as a rural phenomenon, and going forward into the next century, most of the people in less developed countries will be living in cities and the poor will be living in

cities. And so we will have to focus more and more of our attention not just on rural development strategies but on urban development strategies.

That is a major change in a way of mind-set in thinking about development from what it was in the past. And if one thinks about cities, one has to recognize that cities really do present a whole host of major problems that the report highlights, including, for instance, major environmental problems. You have this kind of congestion, of concentration of populations together. There are a whole new set of environmental problems having to do with water, sewage, and air, air pollution.

One observation the report makes is that for most children in developing country cities, breathing air may be as harmful as smoking two packs of cigarettes a day. You know, the quality of air is that bad that every day they are confronted with air pollution. And those are challenges that we really can address. You know, we do have the technology. We do know what is entailed. And we really have to be moving towards it.

There is, again, a balance between a real clear challenge, but also a clear sense of it's a challenge that we know we can address because there are places where we have addressed it. The same thing goes with clean water. There are places where a very small percentage of the population have clean water. There are countries where there is a very large percentage of urban dwellers that have clean water. So these are things that we know we can do something about.

MS. ANSEY: We're going to have one last question here, but can I just say that the issues that you raise about gearing up for the fight against poverty, putting poverty front and center, moving from breaking the chains of debt to breaking the chains of poverty will be issues that Mr. Wolfensohn will be taking up very vigorously over the next two weeks, particularly in his bilateral meetings and in his public appearances during the Annual Meetings, as well as some of the issues we mentioned earlier on governance.

Yes, please? Second row here in the front.

QUESTION: Hi, Joe. I guess we haven't read the report, and given that we have to write about it by 3 o'clock, we probably aren't going to read the report. So given that challenge that we have, could you, in 100 words or less--

[Laughter.]

QUESTION: What exactly is new in this report in World Bank thinking? You've already been lending for all these purposes for quite some time. Then once you've told us what is the new piece of thinking and the new conclusion of the World Bank, how will that affect your lending procedures in the coming decade? Will you now have new priorities and will you be lending to different types of things than you have done in the past?

MR. STIGLITZ: I can't say anything in 100 words. As you know, that's one of my weaknesses.

[Laughter.]

MR. STIGLITZ: I'm trying not to get in trouble.

Let me say that we cannot in the space of even a volume of this size really redefine a development strategy. But what I would urge you to try to read, on the one hand, read the first chapter, which tries to set out some of the overarching changes in our

ways of thinking and trends over the last 30, 40 years that really I tried to summarize in the beginning about the change to a more comprehensive approach, for instance, from a search for a single magic bullet that would solve development. That is a major change in strategy and in thinking, and it is affecting Bank lending policy, Bank country strategies throughout the world. So that's one very important part that's emphasize in the first chapter.

The other aspect is that what we did in this report is to take up a couple of themes--we aren't arguing that these are the only important themes, but they are two themes that have not gotten as much stress, were not stressed as much in earlier thinking as they should have been, perhaps. And those are the themes of localization, urbanization, and globalization. And so what the report tries to do is put a focus on some of the ways in which those trends are going to change the nature of the development enterprise over the coming decades.

Let me just give you one example that illustrates the interaction between globalization and localization, and that is that both of these are weakening the power of a nation state that was the dominant political force over the last 200 years. Globalization has really circumscribed what governments can do. If they undertake certain policies, the reaction of international markets can be very severe. So that really has circumscribed it on the one hand.

On the other hand, the demand for greater participation and localization has meant that there has been a devolution in many areas, in many countries, to local authorities of all responsibilities and powers that were previously part of the nation state.

So these two forces are really interacting now and changing really the very way we think of the political structures in which decisions get made around the world. And, therefore, they have to change the way we as a development institution interact. And they are changing. We are now, for instance, engaged in more lending to subnational governments, you know, through the national government but going right down to subnational.

We are emphasizing more the importance of civil society, NGOs, and the role that they can play in the development efforts. These are really fundamental changes in mind-set that aren't going to affect every road that is built but do affect the overall thinking about development.

MS. ANSEY: Yes, I would just add to that that I think the report shows, as some reports have before, that the Bank sees that top-down development imposed cookie-cutter-like from Washington doesn't work, and I think that it's full of evidence to that effect.

MR. YUSUF: Let me just add to what Joe said. If I was looking at what are sort of the key points in the report, things where we may have added something to the lore of knowledge that there is, I would say one, of course, as Joe mentioned, is that the pragmatic, broad-ranging approach is really what is important when we look out into the future. We have to look at a variety of policy instruments; we have to look at a variety of institutional approaches.

The second thing, in the area of trade, I think it's extremely important to think of extending this rule-based trading environment to services to agriculture. I think that's very important, and looking ahead it will be vital for developing countries.

The third thing is that the production networks which are being established by multinationals and other companies are really very important for developing countries. They must be able to participate in the broad-ranging production networks which we have spelled out in the report.

In the area of the financial sector, I think what we have emphasized with regard to regional coordination and supervision and policy I think is taking steps a little bit further from where the thinking was at present.

In the area of decentralization, I think what we are talking about is rules for governance at different levels. I think the emphasis on those particular rules and how they might be implemented is quite critical for the future in terms of improving levels of governance.

At the urban sector level, I think the important point we are making in Chapter 6 is that governments should take an even-handed, neutral approach towards development. They should not bias policies in one direction or the other.

And, lastly, in the chapter on urban livability, what we are talking about is how conditions can be created for more participation and how this participation can become much more fruitful in the future because it's not something which will just happen. It will need to be worked at.

MS. ANSEY: Thank you very much. May I just say one last thing? We do have an Internet site where we post all these reports under embargo in advance, two weeks before. If you're not registered for the site--I think it's password-protected--please let us know.

Thanks.

[Whereupon, at 11:15 a.m., the press conference was concluded.]