STATEMENT BY MR. KARASZ, REPRESENTATIVE OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AT THE MEETING ON 1 APRIL 1963

For the first time in history the International Bank makes itself officially represented at a meeting of Committee III of GATT. It is a great honour for me to be the Bank's representative at this most important meeting.

Being newcomers in this distinguished gathering I should perhaps introduce ourselves in a few words.

We are called a Bank, the "World Bank" although we are less of a bank and more of a co-operative development institution. A co-operative of our member countries, engaged in long-term financing of development projects, primarily those designed to strengthen their basic economic structures.

Such development financing is done today by the Bank and its completely separate affiliate, the International Development Association (IDA). All of you know the difference between the two institutions: the Bank gives "hard" loans, IDA gives "soft" loans; IDA's loans do not involve interest payments, just a small commission charge and the repayment periods are extremely long.

It is undeniable that the activities and procedures of the Bank are not identical, in the narrow sense of the word, to those of the Committee. One of such differences is exactly in the subject of our activities: neither the Bank nor IDA engages in the financing of international trade in the ordinarily accepted sense of that term. To the extent, however, that foreign exchange resources are made available to our member countries through Bank or IDA financing of development projects, these countries are naturally able to sustain a larger volume of imports than would otherwise be the case. Bank and IDA financing thus tends to encourage the movement of goods, especially capital goods from the industrial to the least-developed member countries and contributes in this way to the easing of the balance-of-payments problems of the developing countries.

It is difficult for a number of reasons to translate figures derived from Bank or IDA operations into an estimate of the contribution of the two agencies to the financing of international trade. It may be that the best measure of direct trade impact is the rate at which the Bank/IDA funds are being committed to development projects. This rate was approximately $1 billion for the fiscal year ended 30 June 1962 and seems likely to reach the same figure by the end of the current fiscal year. Another apparent
difference is in the range of our activities. While trade is basically short-range, most of the effects of the Bank's activities are indeed "long-range". To quote from the Bank's charter, the Bank's purpose is among others "to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members ..." (Article I). This main objective of the Bank is mostly attained with loans for the establishment of the infra-structure of power, industrial and agricultural development.

And here is the point where our activities meet again, for it seems hardly open to challenge that the development of railways, ports, highways, electric power, irrigation and basic industries improve the productive capacity of our member countries including their capacity to export.

In short, by financing development we also help trade.

There are, of course, a number of ways in which the Bank might influence the economic development of the member countries. Direct influence is exerted in case of the loans for infra-structure, indirect influence when Bank advice is given on general development programmes and policies. As is well-known, the Bank is often asked for advice on the establishment of priorities and economic planning in general. Analysis of export prospects and plans is always a major part of such review.

Finally, a word should be said about the Bank's other affiliate, the International Finance Corporation. IFC, unlike the Bank, is authorized to invest in private enterprises in developing member countries without government guarantee. While the projects that come before IFC reflect necessarily the interests of private investors, the Corporation due to its special position will also be able to examine the probable effect of a given investment on improving the international trading position of the member country.

Development banks are rapidly becoming important sources of capital for industrial initiative in the developing countries. As a recent chapter in the Bank's history, IFC has become the Bank's expert in development banking and thus a link leading toward an important field in industrial growth.

It is clear from the objectives I just mentioned that no international agency could be more deeply interested in the problems being tackled by GATT, and more particularly Committee III, than are the Bank and its affiliates. As a development institution but being also a bank we are, quite naturally, deeply interested in the capacity of our member countries to service their international obligations and we have to know whether they are able to incur the additional obligations involved in financing expanded development efforts. We are, of course, worried by the fact that in many countries the capacity to make effective use of external finance is growing faster than their capacity to service and repay debt. Last September, at the meeting of the Board of Governors, the President of the Bank stated that "between 1955 and 1961 a group
of thirty-four countries, accounting for some 70 per cent of the population of
the under-developed world more than doubled its total external debt. Yet over
the same period, the export earnings of the same group increased by little
more than 15 per cent'.

It is evidently in the interest of the Bank as well as of its member
countries that the long-range solution to this problem should be found in the
development of exports. Such a solution would help to avoid a reduction or
interruption in the flow of productive capital to the developing areas of the
world, which might have unfortunate consequences for the whole community of
nations.

To summarize, the Bank and its affiliates are in complete agreement with
your objectives. We finance the balanced growth of the economy of our member
nations by establishing higher levels of agricultural and industrial production.
In the field of economic planning this means that we too attach great
importance to their having access on reasonable terms to the expanding markets
in the industrial countries not only for products of which their output can
be readily expanded but also for the so-called new exports of industrial
products.

This leads me to the final point in my exposé: the "seven targets for
action" contained in document L/1925.

It seems to me that from the point of view of theory there is no reason
to disagree with any of the seven targets. The only idea I would like to add
if I may, and I am sure many among the distinguished members of this Committee
will agree with me, is that the seven targets alone will not lead us to a
definitive solution. It does not seem realistic for the developing countries
to rely entirely or even mainly on measures designed to improve the terms
of trade for their present exports of food and raw materials. In other words,
I would be a little sceptical as to the efficacy of price support programmes
as a real long-term solution to the trade problems of our developing members,
particularly if such programmes tie up a lot of scarce money and reduce the
prospects of IDA-type financing of basic development projects. Would not it
seem far better that the growth of trade be accompanied - and even generated -
by the balanced growth of the entire economy, the balanced increase in the
productive capacity and the diversification of the agricultural and industrial
production of the developing world?

I know that this is a long-term proposition and the way to it will be
full of obstacles. But it is the only way to a more: definitive and constructive
solution. It would be worth being inserted as an "eighth target" for action in
the programme.
Mr. Chairman. As I mentioned at the start of this exposé the World Bank is happy to be represented at this meeting. From now on we shall try to follow the work of GATT more closely than we ever did. We are hopeful that we shall be able to build up a fruitful co-operation with the secretariat of GATT and be of as much assistance as possible in the analytical work done in this Committee.