LGSMUN IX

WORLD BANK

STUDY GUIDE

About the Committee

The World Bank is an international monetary institution that is responsible for providing loans to countries that are trying to develop and work over capital programs. It comprises of two bodies: the International bank for Reconstruction and Development (IBRD), comprising of 189 member states, and the International Development Association (IDA) comprising of 173 member states. The World Bank is the composition of the World Bank group that is the branch of the United Nations system.

The World Bank's core goal is the reduction of poverty. However, according to its Articles of Agreement, all its assessments must be directed by an assurance towards the endorsement of foreign venture and international trade and in the facilitation of capital investment.

In 1944 at the Bretton woods conference the World Bank came into being, along with three others, as well as the International Monetary Fund (IMF). Even though many countries were represented in this conference, it was clear that they were dominated by the United States and the United Kingdom.

The top 20 most powerful countries in the World Bank institution are the: the most powerful is the United States, then Japan, China, Germany, France, United Kingdom, India, Saudi Arabia, Canada, Italy, Russia, Spain, Brazil, Netherlands, Korea, Belgium, Iran, Switzerland, Belgium and Turkey.

The World Bank is the biggest communal development organization in the world, providing loans estimated to be about US$ 25 billion a year to developing countries. The main principle of the Bank, as layer out in its Article One of its Articles of Agreement, are: "to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes" and "to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balance of payments by encouraging international investment, thereby assisting in raising the productivity, the standard of living and conditions of labor in their territories".

The Bank main aims are to attain these goals through the provision of long-term loans to governments for the funding of development plans and economic reform. The voting power of the Bank's board is based on the members' economic subscriptions, which means the members with the greatest financial input have the greatest say in the Bank's decisionmaking process. The US government holds 20 per cent of the vote and is symbolized by a single Exclusive Director. The 47 sub-Saharan African countries, in distinction, have two Executive Directors and hold only seven per cent of the votes between them.

Each member of the Bank contributes two per cent of its payment in gold or US dollars and 18 per cent in its national exchange. Members pay in 20 per cent of the assets while the 80 percent left is kept "callable" (to be paid in the event of a default). This assurance allows the Bank to raise money for its lending purposes on international capital markets by the sale of its bonds.

Interest prices on World Bank loans are altered after every six months and characteristically, the Bank charges borrowers a charge of interest 0.5 per cent above its own cost of borrowing on the international market, the proceeds obtainable towards paying the Bank's operating costs and to attach to reserves.

Loans were originally be supposed to be given specifically to "specific projects"—usually development projects, such as the construction of highways, dams, and telecommunications facilities, and social welfare projects, such as those in the health and education sector.

In 1980, the Bank initiated adjustment the lending practices under its structural adjustment program (SAP) to give financing to countries experiencing balance of payments issues while stabilization measures took effect. These loans are provided to countries for structural, social and sectorial reforms, for example for the development of national financial and judicial institutions. The World Bank attaches terms for providing its loans with the stated aims of ensuring the country's economy is structured towards loan repayment.

China

Subsequently after introducing market reforms in 1978, China has moved from being a centrally planned to being a market-based economy and has experienced swift economic and social progress. GDP growth has averaged nearly 10 percent a year—the fastest persistent development of a major economy in all of history—and has lifted more than 800 million people out of poverty. China reached all the Millennium Development Goals (MDGs) by 2015 and made a large contribution to the accomplishment of the MDGs on a global level.

With a population of 1.3 billion, China recently became the second largest economy and is increasingly playing an important and influential role in the global economy.

However, China remains an emerging country as its per capita income is still a fraction of that in advanced countries and its market reforms are incomplete. Conferring to China's present poverty standard (per capita rural net income of RMB 2,300 per year in 2010 constant prices), there were 70.17 million impoverish people in rural areas in 2014.

Fast economic ascendance has brought on many trials as well, including great inequality; rapid urbanization; challenges to environmental sustainability; and external imbalances. China also faces demographic pressures related to an aging population and the internal migration of labor.

Significant policy adjustments are required in order for China's growth to be sustainable. Experience shows that transitioning from middle-income to high-income status can be more difficult than moving up from low to middle income.

China's 12th Five-Year Plan (2011-2015) and the recently ratified 13th Five-Year Plan (2016-2020) influentially address such issues. They highlight the growth of amenities and methods to address environmental and social disparities, setting aims to reduce pollution and increase energy efficiency, to also improve access to education and healthcare, and to expand social protection. The annual growth target in the 12th Five-Year Plan was 7 percent and the growth target in the 13th Five-Year Plan is 6.5 percent, reflecting the rebalancing of the economy and the focus on the quality of growth while still maintaining the objective of achieving a "moderately prosperous society" by 2020 (doubling GDP for 2010-2020).

Collapse of Chinese Model

Speculations of such a happening began as early on as 2006 and the issue was brought under light in 2012. Back in 2012, when oil prices were above $100 per barrel and the Chinese economy was growing at over 10% per year you'd be hard pressed to convince anyone that a commodity price collapse, fueled by a sputtering China, would be the event that finally brought the world back into recession.

However, Michael Pettis, a former Wall Street trader and professor of finance at Peking University's Guanghua School of Management has been warning of the growing imbalances in the Chinese economy.

It is believed that the Chinese economy is following the example of many countries that came before, like the Soviet Union following World War II, the Brazilian economy in the 1970s, and Japan in the 1980s. In all cases above mentioned, national governments put forward policies that artificially boosted investment and suppressed consumption, policies that led to a fast buildup of growth and large trade surpluses. Eventually, these imbalances move into reverse and that ends up having a severely damaging effect on the economy of the country.

There are several similarities between the failed cases such as the Brazilian economy in the 1970's and the Chinese Model today. But, China is struggling to find growth and this has spread like a wild fire. China could see a financial and economic tsunami surface if much tougher trade agreements are put into place. This is why Beijing has shifted its economic model from one depending on manufacturing and foreign investment and demand, to a model similar to the United States in which consumer spending is largely responsible for expanding the economy. Around the world, wreaking havoc in many emerging and developed economies.

Speculations also stated that the election of Republican candidate Donald Trump will lead to significantly worsened situation in China. Granted, this will only hold true if he stays sincere to his words where he stated that he will punish China for its present trade agreement with the United States. He will instruct his Treasury secretary to label China as a currency manipulator, he will bring cases against Beijing to the World Trade Organization, and he will consider imposing a 45% tariff on Chinese imports into the US to make it easier for American companies to compete.

The US is the biggest single market for Chinese exports, accounting for about 20% of the total. There would be a risk that aggressive US trade policy could result in a marked slowdown in China's growth and a loss of manufacturing jobs.

Faced with that possibility, Beijing would have two choices. It might take an emollient line, promising to increase direct investment into the US as a way of supporting Trump's attempt to rebuild the American economy.

More likely, though, China would adopt an aggressive, nationalistic stance. Beijing is not without economic weapons, since it has amassed a vast stock of US Treasury bonds in recent years, the proceeds of its trade surplus with America. Beijing could meet Trump’s threat with one of its own: to dump US assets. A tit-for-tat trade war, in which China puts tariffs on US exports, could not be ruled out either.

India

The economic development in India has followed socialist-inspired policies for most of its independent history, including state-ownership of many sectors; India's per capita income increased at only around 1% annualized rate in the three decades after its independence. Since the mid-1980s, India has slowly opened up its markets through economic liberalization. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a free market economy.

The economic growth has been driven by the expansion of services that have been growing consistently faster than other sectors. It is argued that the pattern of Indian development has been a specific one and that the country may be able to skip the intermediate industrialization-led phase in the transformation of its economic structure. Serious concerns have been raised about the jobless nature of the economic growth.

The progress of economic reforms in India is followed closely. The World Bank suggests that the most important priorities are public sector reform, infrastructure, agricultural and rural development, removal of labor regulations, reforms in lagging states, and HIV/AIDS. For 2016, India ranked 130th in Ease of Doing Business Index, which is setback as compared with China 84th, Russia 51st and Brazil 116th. According to Index of Economic Freedom World Ranking an annual survey on economic freedom of the nations, India ranks 123rd as compared with China and Russia which ranks 138th and 144th respectively in 2014.

At the turn of the century India's GDP was at around US$480 billion. As economic reforms picked up pace, India's GDP grew five-fold to reach US$2.2 trillion in 2015 (as per IMF estimates).

It was, at first, generally believed that the benefits of economic growth would follow their way down to the poor and thus ease poverty in the economy. This trickle-down effect of economic growth was believed to operate through an increase in employment opportunities and therefore rise in real wages as a result of increase in productivity of workers.

The promising employment effect of economic growth relies on employment elasticity of output growth. The rise in real wages was thought to occur as a result of rise in wages of workers employed in agriculture and non-agricultural sector, both organized and informal.

The agricultural growth was visualized to cause reduction in food prices and greater availability of food grains along with employment growth in agriculture. This would ensure reduction of poverty as it would enable the poor to meet their minimum consumption requirements.

Furthermore, it was also believed that the impoverish will also benefit by the multiplier effect of economic growth. According to this, benefits of growth are reaped first by the rich and subsequently by the poor when the rich spend their incomes leading to the rise in income and employment for the poor.

Some Indian economists, especially Prof, Jagdish Bhagwati and Arvind Panagariya of Columbia University (USA), have argued that economic growth leads to the increase in revenue of the government that can be spent on special anti-poverty schemes.

The reduction in poverty in the last 20 years (i.e. since 1980) has been mainly due to the increase in government expenditure on special anti-poverty schemes. However, it may be noted that increase in government expenditure might be the result of higher fiscal deficit incurred rather than due to the large revenue generated through taxation as a result of higher rate of economic growth.

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As Paul Streeten has observed that trickledown effect does not happen where assets and power are concentrated. The government did not act like Platonic guardian but reinforced the accrual of wealth to the rich and powerful. And it was not realised that investing in the developing countries' most abundant resource, its masses of poor people could be a paying proposition. This raises two issues.

First, whether economic growth will cause reduction in poverty depends on the initial conditions of asset distribution. Since main asset in developing countries is land, if it is grossly unequally distributed, the benefits of agricultural growth will mainly go to the landlords with only small benefits to the landless labour, small and marginal farmers.

In India under the economic reforms initiated in 1991 implied the policy that involved, liberalisation, privatisation and globalisation has not paid any attention to the question of asset distribution (including the distribution of surplus land held by big landlords), and to the tenancy reforms.

US economy and the corporate sector

Earlier on, U.S. manufacturing was in its heyday and American-made goods were equivalent with quality. Corporate America was flowing with cash and companies were swiftly changing, all of which caught the notice of the federal government. Washington saw this important revenue source and increased business guidelines and taxes to such a level that it began to ruin this resource. As the government became more involved in the fabric of the American business, the private sector refuted with a stronger lobbying effort. Money exerts power, which was immensely present in corporate America. This "push-pull" dynamic led to radical changes in the tax code, mostly in favor of business. By 2015, corporate taxes accounted for only 10.8% of federal revenue. Despite the fact that U.S. corporate tax rates are among the highest in the world, their portion of total government revenue is sharply lower than it was 73 years ago. Corporations often increase profits by moving from a high-tax state to a low-tax state or from a less business friendly country to one, which encourages entrepreneurship. This has been a common trend in recent years and it will continue for as long as the federal government maintains an anti-business posture. The real disadvantage in this battle is to the workers. When companies leave the U.S. the worker is without a job.

Trump win and stock market

Financial markets globally initially recoiled in tremor as it became clear Donald Trump was on track to win the U.S. presidential election. But those changes have been toughened in early Wednesday trading as investors evaluate what could come next. U.S. stock futures have harshly decreased losses, with those for the S&P 500 ESZ6, +0.10% down 1.7% at 2,099.75. Earlier in the morning, the futures were crashed lower, instigating premarket circuit breakers when they hit a 5% drop. Futures for the Dow Jones Industrial Average YMZ6, +0.10% were down 280 points at 18,006, after having been more than 800 points lower. The contract is still on track for its biggest jump since the U.K.'s Brexit vote in June.

The moves came as Republican candidate Trump emerged as the victor in the U.S. presidential election, defeating Democratic nominee Hillary Clinton. Financial markets had largely priced in a win for Clinton, who they saw as a better outcome in the short term because she represented fewer unknowns. The first speech by Trump however, has had a soothing effect on the markets with Trump certainly sounding more presidential than he has done at any stage during the election campaign. This suggests that a win for President Trump is not yet America's Brexit moment according to analysts. With a Trump win investors are expected to act defensively in the near term as they recalibrate a potential policy shift. At the moment, the global economy is slowing, but stock markets are not far off record highs because of loose monetary policy. Any uncertainty would be a convenient reason for the Federal Reserve to delay hiking interest rates again. So the 'Yellen put' effect could mean a Trump victory is positive for the stock market.

Great recession

In 2008 the world markets collapsed, millions lost their jobs worldwide and GDP plunged in many developed countries. Now when the top world economists are warning about another major economic crisis, the world must show its concern about this topic. Governments have addressed it in the form of inquiries and committees such as the Financial Crisis Inquiry Commission (FCIC). It is clear that the voice of the business sector needs to be heard. The term "Great Recession" relates to the events of the world economic crisis of the early 21st century. Recession is a term many people often misunderstand. According to the media it is simply bad times for the economy but economists prefer more specific definitions. According to one of these definitions recession occurs when two consecutive quarters have a negative Gross Domestic Product (GDP). Others refer to the case when there is 1.5% rise in unemployment within the period of 12 months. According to the International Monetary Fund (IMF) the "Great Recession" was the worst post-World War II recession by far. During the Great Recession the United States' unemployment rate has raised from 5% to 10% in a single year, investment in housing was halved median level rose from 66% of the GDP in 2008 to 103% of the GDP in 2012. This was clearly not the best year for the United States. In Europe, the recession took the form of a debt crisis, which nearly led to the end of the Monetary Union and almost cost the union some of its members like Greece. In Asia, major economies like China and India managed to stay out of an actual recession (negative growth) but their growth rate was cut, for example China's growth went down from ~13% in 2007 to just over 6% in on the world economy. There are many causes for this; the reasons can vary from a housing bubble to deregulation and it seems that everyone is to be blamed. The business sector, and thus mainly risk management and corporate governance have acted as the main causes of the Great Recession. Risk management is the ability to appreciate the chance of default and price that risk accordingly. It seems that before the Great Recession companies failed in their risk management and loaned money to risky sources without the right coverage or security.

Questions a resolution must answer

- How efficient are the current policies of the World Bank?
- How far were the World Bank's policies responsible in causing or almost causing economic crises?
- How can the World Bank deal with emerging economies and their inevitable decrease in growth?
- How far can the World Bank advise on or dictate policies in countries?
- What do past examples of recessions, their aftermath and the policies put in place to elevate the economy teach us?

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
VOTING POWER OF EXECUTIVE DIRECTORS

			NO. OF VOTES	PERCENT OF TOTAL
	DIRECTORS APPOINTED BY:			
1.	UNITED STATES (MCGUIRE)		384,362	16.51
2.	JAPAN (KOGUCHI)		166,128	7.14
3.	CHINA (YANG)		107,278	4.61
4.	GERMANY (MUELLER)		97,258	4.18
5.	FRANCE (DE VILLEROCHE)		91,088	3.91
	UNITED KINGDOM (ROBINSON)		91,088	3.91
	ELECTED DIRECTORS:			
7.	GODTS (BELGIUM)		116,283	5.00
	AUSTRIA	15,295		
	BELARUS	4,895		
	BELGIUM	37,837		
	CZECH REPUBLIC	8,677		
	HUNGARY	11,477		
	KOSOVO	1,650		
	LUXEMBOURG	2,973		
	SLOVAK REPUBLIC	4,759		
	SLOVENIA	2,393		
	TURKEY	26,327		
8.	JIMENEZ (SPAIN)		108,099	4.64
	COSTA RICA	1,807		
	EL SALVADOR	825		
	GUATEMALA	2,685		
	HONDURAS	1,325		
	MEXICO	34,058		
	NICARAGUA	1,511		
	SPAIN	44,843		
	VENEZUELA, REPUBLICA BOLIVARIANA DE	21,045		
9.	HEEMSKERK (NETHERLANDS)		95,722	4.11
	ARMENIA	1,823		
	BOSNIA AND HERZEGOVINA	1,233		
	BULGARIA	7,292		
	CROATIA	3,590		
	CYPRUS	2,145		
	GEORGIA	2,479		
	ISRAEL	6,703		
	MACEDONIA, FORMER YUGOSLAV REPUBLIC OF	1,111		
	MOLDOVA	2,250		
	MONTENEGRO	1,372		
	NETHERLANDS	46,513		
	ROMANIA	7,550		
	UKRAINE	11,661		
10.	ALLFORD (AUSTRALIA)		95,463	4.10
	AUSTRALIA	32,276		
	CAMBODIA	898		
	KIRIBATI	1,149		
	KOREA, REPUBLIC OF	38,208		
	MARSHALL ISLANDS	1,153		
	MICRONESIA, FEDERATED STATES OF	1,163		
	MONGOLIA	1,150		
	NAURU	1,270		
	NEW ZEALAND	10,445		
	PALAU	700		
	PAPUA NEW GUINEA	1,978		
	SAMOA	1,461		
	SOLOMON ISLANDS	1,197		
	TUVALU	1,145		
	VANUATU	1,270		
11.	GARG (INDIA)		84,961	3.65
	BANGLADESH	7,152		
	BHUTAN	1,364		
	INDIA	70,607		
	SRI LANKA	5,838		

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
VOTING POWER OF EXECUTIVE DIRECTORS

			NO. OF VOTES	PERCENT OF TOTAL
12.	HOGAN (CANADA)		84,248	3.62
	ANTIGUA AND BARBUDA	1,204		
	BAHAMAS, THE	1,755		
	BARBADOS	1,632		
	BELIZE	1,270		
	CANADA	59,038		
	DOMINICA	1,188		
	GRENADA	1,215		
	GUYANA	2,210		
	IRELAND	8,064		
	JAMAICA	3,515		
	ST. KITTS AND NEVIS	959		
	ST. LUCIA	1,236		
	ST. VINCENT AND THE GRENADINES	962		
13.	CANUTO (BRAZIL)		77,299	3.32
	BRAZIL	42,647		
	COLOMBIA	10,414		
	DOMINICAN REPUBLIC	2,776		
	ECUADOR	3,455		
	HAITI	1,907		
	PANAMA	1,069		
	PHILIPPINES	10,587		
	SURINAME	1,096		
	TRINIDAD AND TOBAGO	3,348		
14.	PAGANO (ITALY)		75,851	3.26
	ALBANIA	1,514		
	GREECE	2,368		
	ITALY	61,587		
	MALTA	1,758		
	PORTUGAL	6,144		
	SAN MARINO	1,279		
	TIMOR-LESTE	1,201		
15.	ULBAEK (DENMARK)		74,413	3.20
	DENMARK	18,480		
	ESTONIA	1,854		
	FINLAND	12,123		
	ICELAND	2,305		
	LATVIA	2,438		
	LITHUANIA	2,594		
	NORWAY	14,102		
	SWEDEN	20,517		
16.	BOUGARA (ALGERIA)		73,120	3.14
	AFGHANISTAN	1,190		
	ALGERIA	12,408		
	GHANA	2,651		
	IRAN, ISLAMIC REPUBLIC OF	35,647		
	MOROCCO	7,303		
	PAKISTAN	12,518		
	TUNISIA	1,403		
17.	GRUBER (SWITZERLAND)		71,797	3.08
	AZERBAIJAN	2,555		
	KAZAKHSTAN	4,633		
	KYRGYZ REPUBLIC	1,791		
	POLAND	17,813		
	SERBIA	3,530		
	SWITZERLAND	35,344		
	TAJIKISTAN	1,744		
	TURKMENISTAN	1,210		
	UZBEKISTAN	3,177		
18.	HADIYANTO (INDONESIA)		70,552	3.03
	BRUNEI DARUSSALAM	3,057		
	FIJI	1,671		
	INDONESIA	23,715		
	LAO PEOPLE'S DEMOCRATIC REPUBLIC	956		
	MALAYSIA	11,131		
	MYANMAR	4,149		
	NEPAL	1,793		
	SINGAPORE	6,253		
	THAILAND	11,792		
	TONGA	1,178		
	VIETNAM	4,857		
19.	LUSHIN (RUSSIAN FEDERATION)		70,075	3.01
	RUSSIAN FEDERATION	67,189		
	SYRIAN ARAB REPUBLIC	2,886		
20.	ALKHUDAIRY (SAUDI ARABIA)		67,189	2.89
	SAUDI ARABIA	67,189		

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
VOTING POWER OF EXECUTIVE DIRECTORS

			NO. OF VOTES	PERCENT OF TOTAL
21.	HASAN (KUWAIT)		60,020	2.58
	BAHRAIN	1,787		
	EGYPT, ARAB REPUBLIC OF	11,366		
	IRAQ	3,492		
	JORDAN	2,693		
	KUWAIT	16,019		
	LEBANON	1,746		
	LIBYA	8,524		
	MALDIVES	1,153		
	OMAN	2,245		
	QATAR	2,073		
	UNITED ARAB EMIRATES	6,026		
	YEMEN, REPUBLIC OF	2,896		
22.	TORERO (PERU)		46,565	2.00
	ARGENTINA	18,864		
	BOLIVIA	2,469		
	CHILE	10,697		
	PARAGUAY	1,913		
	PERU	8,375		
	URUGUAY	4,247		
23.	BOUDA (BURKINA FASO)		43,951	1.89
	BENIN	1,552		
	BURKINA FASO	1,944		
	CABO VERDE	1,192		
	CAMEROON	2,422		
	CENTRAL AFRICAN REPUBLIC	1,659		
	CHAD	1,546		
	COMOROS	966		
	CONGO, DEMOCRATIC REPUBLIC OF	3,327		
	CONGO, REPUBLIC OF	1,735		
	COTE D'IVOIRE	4,189		
	DJIBOUTI	1,243		
	EQUATORIAL GUINEA	1,399		
	GABON	1,671		
	GUINEA	1,976		
	GUINEA-BISSAU	1,224		
	MADAGASCAR	2,106		
	MALI	2,193		
	MAURITANIA	1,716		
	MAURITIUS	2,258		
	NIGER	1,659		
	SAO TOME AND PRINCIPE	1,179		
	SENEGAL	3,006		
	TOGO	1,789		
24.	BVUMBE (ZIMBABWE)		40,033	1.72
	BOTSWANA	1,299		
	BURUNDI	1,727		
	ERITREA	1,277		
	ETHIOPIA	1,662		
	GAMBIA, THE	1,227		
	KENYA	3,395		
	LESOTHO	1,347		
	LIBERIA	1,147		
	MALAWI	1,778		
	MOZAMBIQUE	1,735		
	NAMIBIA	2,207		
	RWANDA	1,730		
	SEYCHELLES	947		
	SIERRA LEONE	1,507		
	SOMALIA	1,236		
	SOUTH SUDAN	2,121		
	SUDAN	1,534		
	SWAZILAND	1,124		
	TANZANIA	1,979		
	UGANDA	1,301		
	ZAMBIA	3,494		
	ZIMBABWE	4,259		
25.	KUNENE (SOUTH AFRICA)		35,131	1.51
	ANGOLA	3,610		
	NIGERIA	13,458		
	SOUTH AFRICA	18,063		
			2,327,974	100.00 **

** MAY DIFFER FROM THE SUM OF INDIVIDUAL PERCENTAGES SHOWN BECAUSE OF ROUNDING.

CORPORATE SECRETARIAT
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