Statement of the U.S. Chamber of Commerce

ON: World Bank and Multilateral Development Banks Authorization

TO: Hearing of the U.S. House of Representatives Financial Services Subcommittee on International Monetary Policy and Trade

BY: Mr. John Murphy, Vice President for International Affairs, U.S. Chamber of Commerce

DATE: Tuesday, October 4, 2011

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairman Miller, Ranking Member McCarthy, and distinguished members of the Subcommittee on International Monetary Policy and Trade. My name is John Murphy, and I am Vice President for International Affairs at the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

I am pleased to speak today about the importance of funding a robust International Affairs budget in general and supporting the general capital increase for the World Bank and the other multilateral development banks in particular.

If we are to create the 20 million new American jobs in the next decade that our growing population will require, our engagement in the world economy will play a vital role. In September 2009, the U.S. Chamber set a national goal of doubling U.S. exports in the next five years. We were pleased President Obama echoed that goal in his State of the Union address the following January.

The rationale is clear: We cannot rely on domestic consumption to generate more demand for the goods and services we produce. The American consumer is likely to spend more frugally in the years ahead, and the federal government faces an unsustainable budget deficit equivalent to roughly 9 percent of U.S. GDP this year.

Most importantly, outside our borders are markets that represent 73 percent of the world's purchasing power,[1] 87 percent of its economic growth,[2] and 95 percent of its consumers. The resulting opportunities are immense.

If America fails to look abroad, our workers and businesses will miss out on huge opportunities. Our standard of living and our standing in the world will suffer. With so many Americans out of work, international engagement is a higher priority than ever before.

Trade already supports one in three manufacturing jobs, and one in three acres on American farms is planted for hungry consumers overseas. More than 280,000 small and medium-sized businesses export, accounting for nearly a third of all merchandise exports.

The International Affairs budget plays a vital enabling role for U.S. companies to tap foreign markets and create jobs and prosperity at home. Although it represents less than 1.5 percent of the total federal budget, the International Affairs budget is critical to creating jobs, saving lives, and protecting our national security.

As former Defense Secretary Robert Gates has stated, "America's civilian institutions of diplomacy and development have been chronically undermanned and underfunded for far too long … relative to the responsibilities and challenges our nation has around the world." America must utilize all of the tools and resources it has to strengthen U.S. national interests and ensure our global competitiveness.

The International Affairs Budget supports and protects U.S. diplomats, who are on the front lines of American commercial diplomacy and export promotion efforts. U.S. foreign assistance programs provide technical advice and build stronger political, legal, and economic policy regimes in developing countries that help these nations to become reliable trading partners. This is more clearly the case than ever before, as developing countries last year purchased more than half of all U.S. exports for the first time in years.

With regard to the specific topic of today's hearing, the Chamber strongly supports authorizing and appropriations measures for capital increases for the multilateral development banks (MDBs), including the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the European Bank for Reconstruction and Development (EBRD).

The World Bank's mission is as vital today as it was in 1944, when the United States led the charge to create an institution to foster reconstruction and economic development. Over the years, the World Bank and the regional banks have funded successful programs to get children into school; build infrastructure to allow entrepreneurs and farmers to transport their goods to market; strengthen judiciaries and the other governance institutions; support private sector job creation; and combat measles, diarrhea, malaria and other preventable illnesses. These efforts helped developing countries add two decades to life expectancy, cut the mortality rate of children under age five by 50 percent, and reduce by half the proportion of people living in poverty.

American businesses understand these institutions' vital role in fostering prosperity. MDB loans and expertise help developing countries become reliable trading partners and open up their markets for U.S. goods. These loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate.

As World Bank President Robert Zoellick has said, the World Bank invests in both the *hardware* and the *software* that foster economic development and turn poor countries into growing markets for U.S. goods and services. Much the same can be said of the work of the other MDBs.

Consider the transport sector. In Ghana, for example, the World Bank-funded Trade and Investment Gateway Project helped build a flyover bridge and network of roads linking the country's economic hubs with existing routes, creating a multi-purpose industrial park. The results include over 3,000 investment projects valued at more than $12 billion and more than 300,000 new jobs.

These investments and the accelerating pace of economic growth and development in Ghana have helped drive a sharp increase in U.S. exports to the country. U.S. exports to Ghana have more than tripled in the past four years, sustaining thousands of American jobs.

If this example captures the *hardware* of economic development, the MDBs' work in improving regulation, ensuring the rule of law, and combating corruption represents the *software* to which Zoellick has referred.

To give one example in this area, the World Bank partnered with the World Customs Organization to help Cameroon's customs authority increase transparency and revenue collection by establishing individual and team performance contracts with measurable indicators. In less than two months, revenues increased by an average of 5 percent per customs declaration — the equivalent of $30 million a year. Over 90 percent of the customs declarations in Cameroon are now assessed the same day they are lodged by customs brokers.

To facilitate cross-border trade, the World Bank has supported border modernization and trade facilitation initiatives with very favorable results. For example, the East Africa Regional Trade Facilitation Project covering Kenya, Uganda, and Rwanda has employed the One Stop Border concept. The Project has reduced the border clearance time for cargo at one post on the Kenya-Uganda border from an average of almost two days five years ago to an average of only seven hours today. Further gains are anticipated in the near future.

The business community has been working closely with the World Bank, the World Trade Organization, and others on the issue of trade facilitation. For example, the World Bank has partnered with the global express delivery industry to help improve customs procedures.

It's also worth mentioning the critical role the MDBs played in addressing the shortage of trade finance that accompanied the world financial crisis in 2008-2009. This threatened to greatly add to the decline in world trade at the time and exacerbate the recession that struck the United States and many other countries.

In response, the World Bank Group's private sector arm, the International Finance Corporation (IFC), devised an expanded Global Trade Finance Program to boost credit guarantee coverage for developing country banks, many of them in Africa. Today, the IFC is working with more than 200 issuing banks in 84 emerging markets through this Program. In FY 2011, it issued $4.56 billion in guarantees, a 32 percent increase over the previous year, and the Program recently topped $10 billion in guarantees.

In all of these cases, the United States plays a significant role in helping to shape these policies as the largest shareholder at the World Bank and the IDB and one of the largest at the AfDB and the ADB. Failure to support the capital increase would undermine U.S. leadership and the ability to shape development priorities.

The U.S. investment in the MDBs has a huge multiplier effect. For instance, the United States has invested only $2 billion in the World Bank's capital base since its creation in 1944. The U.S. funding has leveraged contributions from other donors, allowing the World Bank to provide nearly $500 billion in financing and invaluable expertise to developing countries.

Every U.S. taxpayer dollar invested in the World Bank leverages $25 in additional contributions from other countries. A similar multiplier effect is achieved by the other MDBs. While the MDBs benefit from sound financial management, they will face serious lending constraints without a capital increase. Because the U.S. recovery may be undermined by even more severe difficulties abroad, it is squarely in the U.S. national interest to support the capital increases. In addition, MDB loans generate many contract opportunities for U.S. firms, generating thousands of jobs here at home.

On June 7, the Chamber and five other business organizations — the Business Roundtable, the Coalition for Employment through Exports, the Emergency Committee for American Trade, the National Foreign Trade Council, and the U.S. Council for International Business — sent a letter to Congress making many of these points and supporting the capital increase for the multilateral development banks.

The U.S. Chamber is mindful of the difficult fiscal circumstances facing our country. As the Chamber and more than 150 other business organizations wrote in a joint letter to Congress last week, the United States must stabilize its debt and put the debt's share of the economy on a downward path. To do so, Congress must reform entitlement programs and comprehensively restructure the U.S. tax code.

Achieving the necessary adjustment to our fiscal policy cannot be accomplished by abandoning more than half a century of leadership in the multilateral development banks. Indeed, the capital increase for the MDBs is a small fraction of the International Affairs budget, which as I've said is itself less than 1.5 percent of the total federal budget.

The United States cannot afford to sit on the sidelines while others seize leadership of the world economy — including at the multilateral development banks. We need to support the capital increase for the MDBs so that we can continue to lead their efforts to support the export markets on which our recovery depends. Further we need to open markets by approving the pending trade accords with South Korea, Colombia, and Panama and negotiating more agreements like them. We need to work closely with our allies and partners to show leadership in tackling the tough challenges facing the world economy.

The capital increase for the MDBs is an investment that will strengthen our economy by shoring up vital export markets, promote economic development and good governance, and reaffirm U.S. leadership. At stake is the standing of the United States as the world's leading power, our ability to exert positive influence around the world, our reputation and brand overseas, and our best hopes for escaping high unemployment, massive deficits, and exploding entitlements. The U.S. Chamber of Commerce looks forward to working with the members of the Subcommittee to secure approval of the general capital increases for the multilateral development banks.

Thank you very much.

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[1] David Wessel, "Asia's Latest Export: Recovery," *The Wall Street Journal*, February 24, 2010, http://online.wsj.com/article/SB10001424052748703510204575085280515242598.html.

[2] Office of the U.S. Trade Representative, Executive Office of the President, *The President's 2010 Trade Policy Agenda*, March 2010, http://www.ustr.gov/webfm_send/1673. "International Monetary Fund forecasts indicate that nearly 87 percent of world growth over the next 5 years will take place outside of the United States."

United States House of Representatives
Committee on Financial Services

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
John Murphy	U.S. Chamber of Commerce
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☑ Yes ☐ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
Please see attached document.	
7. Signature:	

Please attach a copy of this form to your written testimony.

Question 6: If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

Granting Agency: The US Chamber of Commerce is a sub-recipient to the National Chamber Foundation under a grant from the Department of Commerce

Award #: IT10MAS112004

Project Title: Export Green: Growing SME Exports to Brazil

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