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"CORRECTIVE INITIATIVES IN INTERNATIONAL TRADE AND FINANCE"

Statement

by

A. W. Clausen, President

The World Bank

and

International Finance Corporation

to the

United Nations

Conference on Trade and Development

Belgrade, Yugoslavia

June 9, 1983

Mr. Chairman, distinguished delegates, ladies and gentlemen:

Three years of global recession have stunted development in nearly all the nations represented here. The recession has also provoked pressures for new barriers to international trade and a sharply lower rate of growth in international capital flows. The unexpected severity of the disruption of commercial-bank lending in the second half of 1982 made the risk of even more adverse possibilities obvious.

Fast action by the IMF and other monetary authorities, cooperation from commercial banks, adjustments in many developing countries, and the stirrings of economic recovery in the industrial countries have together bought us some time. But in order to achieve sustained expansion of the global economy and to reverse today's negative trends in the developing countries, we will need to strengthen the structures of international trade and finance.

My statement today is in three parts: first, why we need corrective initiatives; second, directions for reform in trade; and third, essential measures to revive the flow of international finance.

* * *

The world economy is starting to show signs of recovery from its worst recession since the Depression of the 1930s. The recovery that is underway in the industrial economies is tremendously welcome. Nothing is more important to the global economy right now. But the recovery gives us no cause for complacency. Even with the recovery, a lot of things have to go right for the world economy to achieve much improvement in the Eighties over the relatively slow growth of the Seventies.

Economic growth in the industrial countries slowed down during the Seventies, and by the end of the decade inflation seemed out of control. Determined anti-inflationary policies -- with heavy reliance on monetary policy and continued budget deficits -- prolonged the recession of the last few years. Although interest rates have begun to come down, they are still at historically high levels. Commodity prices have started to rise from their 1982 lows, but they are still considerably below previous levels.

An unprecedented number of developing countries have had problems servicing their debt. Commercial banks have reduced the pace of their lending to developing countries, and that has made the liquidity problems of borrowing countries more acute. Debt rescheduling has given many developing countries a breathing spell. But they need continuity in the flow of long-term capital for their development, and an expansion in their exports to permit them to meet their future debt obligations.

Contributions of development assistance have been fluctuating and uncertain. Preliminary figures for OECD donors in 1982 indicate a heartening increase of nine percent over 1981. But both OECD and OPEC contributions were down sharply in 1981, and current plans and budgetary indications suggest that development assistance will be growing more slowly than in the past.

Finally, protectionist pressures are threatening the liberal, multilateral trading system. The GATT Ministerial Meeting last November reaffirmed the international commitment to resist protectionism, but the long agenda prepared at the Ministerial Meeting awaits action.

Under these global conditions, the developing countries have not been able to maintain the momentum of progress. Average per capita income for the developing countries declined in 1981 and 1982.

In response to immediate financial problems, many developing countries are having to take measures that will retard growth in the future. Some countries are cutting deeply into vital programs of investment, for example. Proven and promising initiatives to raise the production of small farmers, improve education and health, and provide services to the urban poor are being scaled back or dismantled because of budget pressures.

Progress has been retarded in nearly every part of the developing world, but most dramatically in Africa and Latin America.

In the low-income countries of Africa, average per capita income was already declining roughly one percent a year between 1973 and 1980. In 1981 and 1982, the rate of economic decline in low-income Africa more than doubled. The average income of people in low-income Africa has dropped one-eighth over the last ten years.

Average per capita income in Latin America was growing between two and three percent a year throughout the Seventies, but in 1981 and 1982 it declined about two percent a year. And the full impact of last year's cut-backs in imports and government spending has yet to register on employment and income. Unemployment and cuts in public expenditure usually affect low-income people most severely.

Stagnation in the developing economies is forcing them to cut imports from the rest of the world, and that is dampening the recovery of the industrial economies. The drop in imports by the non-oil developing countries accounted for 30 percent of the total drop in world imports in 1982. The industrial economies cannot achieve a strong, sustained recovery unless the developing economies also revive.

Developing countries may have more difficulty expanding their exports in the Eighties. Import barriers will contribute to slower growth in their manufactured exports. More generally, the long-term tendency for international trade to grow faster than world output may be less marked in the future. The industrial countries already trade a large share of what they produce, and an increasing share of what they produce consists of services (which are traded less than goods).

In the tough global environment of the Eighties, corrective action in the domestic policies of individual nations is more important than ever. Nearly all developing countries have scope for further improvement in their trade policy, the efficiency of investment and of public enterprises, agricultural incentives, and population policy. Developing countries that postponed needed adjustments in the Seventies, when credit was more readily available, have been particularly hard-hit by the recession, while countries with sound, flexible economic policies are generally coping more successfully.

The industrial countries, too, have plenty of scope for domestic policy reform. Policy improvements in the industrial countries -- to get government deficits under control, for example, or to encourage higher levels of investment and productivity -- are crucial, not only for the prosperity of the industrial countries themselves, but also for the global economy as a whole.

In addition to what nations can do by themselves, however, we also need a fresh impulse of international cooperation on economic issues. There has been significant international cooperation in coping with the economic turbulence of the last ten years, but the advances in international cooperation have not been enough to maintain rapid worldwide growth.

More recently, nations have too often wavered on their commitments to established policies and announced economic principles. The multilateral trading system is under siege, but no effective counter-initiative has yet been launched. International lending by commercial banks has slumped, but key industrial nations are reticent about expanding official lending. The needs of the world's poorest countries are especially great right now, but the donors have not made the commitments necessary to assure that development assistance will rise to meet the challenge.

Allow me, then, to focus on a few essential and attainable initiatives to repair and improve existing systems of international trade and finance.

* * *

Let me begin with trade.

For most of the period since the Second World War, an increasingly open trading environment encouraged trade to grow faster than production. The dynamic expansion of trade was a powerful stimulus for economic improvement in both the industrial and developing countries.

But the world has come to a crossroads in its approach to international trade. In our view, strengthening liberal trade is central to worldwide recovery. If we fail to strengthen the system, trade barriers will accumulate, with adverse effects on the development prospects of all countries.

The current pressures for protection are partly provoked by recession, but more protection makes the recession worse -- by discouraging production in other countries and by making the protected economy less efficient for years to come. Protection can, to a limited extent, sustain employment in threatened industries, but it reduces employment elsewhere -- in other countries and in other industries of the same country. Protection can also postpone difficult adjustments to shifts in international comparative advantage, but only at the cost of increased inefficiency and damage to the protected economy.

Some of the advocates for protection are trying to revive discredited arguments by using the new terminology of "managed trade." But "managed trade" is just one more name for government intervention to shelter uncompetitive industries. "Managed trade" locks labor and capital in less productive sectors, strengthens inflationary pressures, and starves dynamic industries of needed resources.

The major trading nations must take the lead in strengthening the trading system. So we applaud their resolve to roll back protection. This resolve was articulated by the OECD ministers at their meeting last month in Paris and confirmed by the heads of state at the Williamsburg summit.

The developing countries have an especially high stake in trade. Open and expanding trade has been crucial to the rapid economic growth and structural transformation that many developing countries have achieved over the last generation. The best way for developing countries to revive their economies now -- and the only way for indebted countries to finally overcome their current financial difficulties -- is to expand exports.

The success of countries that have pursued outward-looking development strategies has been thoroughly documented through studies done by The World Bank and others. Outward-looking strategies are characterized by realistic exchange rates, equal incentives for domestic and export production, and willingness to permit import competition. The evidence is clear that such strategies improve resource allocation, boost growth, and make countries better able to withstand external shocks. The newly industrializing countries provide some of the most dramatic examples of how exports can stimulate rapid growth.

Access to markets in the industrial countries is an essential complement to outward-looking strategies on the part of the developing countries. The industrial countries should welcome competitive imports from the developing countries, and allow their own resources to be gradually reallocated to reflect shifts in comparative advantage.

The wide differences in production costs between industrial and developing countries offer a powerful opportunity to stimulate economic efficiency and higher real incomes on both sides through trade. Adjustment can be painful, but it is difficult to imagine how the industrial countries can return to a pattern of sustained economic expansion without such stimulation from the developing countries. Today's newly industrializing countries must gradually move up the scale of manufacturing sophistication, which would then allow the next rung of developing countries to become increasingly competitive in simpler, more labor-intensive lines of manufacturing.

Barriers to imports from the developing countries stymie this dynamic process. Quantitative restrictions, such as the multifibre agreements, are particularly onerous, because they assign quotas on the basis of past exports. That locks out competitive lower-income developing countries.

All developing countries have gained increased access to export markets from GATT negotiations, because multilateral trading rules assure all nations the same access that big trading partners negotiate. However, while some developing countries have been very active in multilateral trade negotiations, many developing countries have not participated fully. The developing countries could have gained even more from trade negotiations under the auspices of GATT, if more of them had participated actively.

Because the main participants in GATT trade negotiations were the industrial countries, issues of concern mainly to the developing countries -- escalating tariffs and barriers to trade in agriculture, textiles, and clothing -- have been virtually excluded from the agenda. The average tariff on developing-country exports is higher than the average tariff on industrial-country exports, and there are more non-tariff restrictions on developing-country exports than on industrial-country exports.

Given the importance and possible difficulty of expanding developing-country exports in the Eighties, developing countries need to carefully assess the benefits and costs of more active participation in the GATT. Developing countries have managed to obtain special and differential treatment. But the relatively small and uncertain benefits of these arrangements may not make up for the costs of not taking full advantage of the trade liberalization process.

Industrial countries should both stop erecting new trade barriers and dismantle existing ones. It is particularly damaging when barriers to trade are erected outside the GATT arrangements, often indirectly and covertly.

The possibility of imposing temporary import restrictions is a useful safety valve; it would be far more difficult to mobilize support for liberal trade policies if this possibility were not allowed. But the process of reviewing requests for protection should be transparent, and those who stand to lose from protection, as well as those who stand to gain, should be allowed to make their case. As resolved at the 1982 GATT Ministerial Meeting, we need a more precise safeguard code. Under the new code, restrictive measures should be accompanied by measures to promote adjustment to changes in comparative advantage.

Initiatives to strengthen the open, multilateral trading system -- complementary initiatives by both the developing and industrial countries -- are essential to improved economic prospects for all countries.

* * *

We also need corrective measures to revive international finance. International capital flows to the developing countries are an important aspect of global economic health. The developing countries offer more opportunity for highly productive investment than they can finance from their own saving. International investment accelerates their growth, and it also allows high-income countries to get a better return on their savings.

Let me talk about each of the four main components of international capital flows in turn -- private lending, direct foreign investment, official lending, and official development assistance.

The growth of private lending declined sharply in 1982, as net commercial-bank lending to the developing countries (that is, new lending minus the repayment of principal) dropped from $43 billion in 1981 to $22 billion in 1982. Net lending in 1982 was not nearly enough to cover interest payments, and net lending was negative in the second half of 1982 -- for the first time since such records have been kept.

Net lending to Latin America dropped drastically -- from $31 billion in 1981 to $12 billion in 1982.

In 1982 and early 1983, there has been some restructuring of commercial debt, which eases repayment problems. But net lending is likely to grow slowly again this year, and may still be too little to cover interest payments.

The drop in commercial-bank lending has been more severe than an overall evaluation of the creditworthiness of major borrowing countries would suggest. But it is unrealistic to expect a return to the former growth pattern of commercial-bank lending within the foreseeable future.

The difficulty of commercial-bank borrowing, together with high real interest rates, makes direct foreign investment more attractive to developing countries. Most developing countries could -- and should -- do more to attract direct foreign investment. But accelerating direct foreign investment will take time, and net direct foreign investment was only a third of net private lending in 1980. So while direct foreign investment can substitute for borrowing, it cannot possibly grow fast enough to make up for the present disruption in commercial lending.

Official nonconcessional lending ought to be expanded more quickly in the Eighties. This would help offset the slowdown in commercial lending; and since official lending is long-term at relatively stable rates of interest, official lending helps to stabilize the debt payments of borrowing countries.

More important, official lending -- especially through the multilateral financial institutions -- supports projects and policies which result in a more productive and equitable use of domestic resources. Mainly because of this effect on policy, official lending also encourages the expansion of commercial lending and investment.

The International Monetary Fund has been the world's front-line defense against sudden, damaging cut-backs in economic activity because of balance-of-payments problems. Ratification of the proposed increase in IMF quotas is essential.

But current debt problems are only one facet of a more fundamental problem, which also involves the stagnation of trade and development. Developing-country debt problems cannot be resolved without initiatives to strengthen world trade. Nor can debt problems be resolved without initiatives to maintain a growing flow of medium- and long-term capital to the developing countries to supplement domestic investment and revive their economies. Therefore, given the slowdown in commercial flows, an expanded role for The World Bank, together with the regional development banks, is absolutely essential.

The World Bank is taking action to accelerate its disbursements. We are also working to attract commercial investment to the developing countries, through co-financing and the IFC.

Also, in response to the need for difficult policy decisions in many countries, The World Bank is directing more of its resources to support urgent policy decisions. It is often difficult to reduce barriers to trade or make other structural adjustments, especially now that many developing economies are depressed. When a country reduces barriers to trade, for example, protected industries may begin suffering the costs immediately. The improved incentive structure will encourage new, more efficient industries -- new and better employment opportunities -- but that takes time and investment. So external financing in support of structural adjustment can be crucial.

The World Bank could identify and supervise a larger volume of high-quality investments in the developing countries, and it could also borrow much more on the world's capital markets. But present planning assumptions allow for virtually no real growth in IBRD commitments in the next few years.

The Bank's management is proposing that, starting next year, IBRD lending expand by about five percent a year in real terms. We are also preparing a plan for a Selective Capital Increase for IBRD, parallel with the agreed increase in IMF quotas. Unless we address the issue of IBRD's capital needs in a timely and realistic way, IBRD will face severe constraints within a couple years.

This assembly should remind the world that effective international institutions need to be supported and adequately capitalized, so that they can expand in accordance with the needs of the Eighties.

Finally, allow me to address the urgent issue of official development assistance and, in particular, IDA.

The wor.d's low-income countries -- that is, countries with national incomes below $410 per person per year -- benefit relatively little from non-concessional capital flows. Most low-income countries cannot meet their needs for external capital by commercial borrowing; many low-income countries that borrowed significantly on commercial terms in the 1970s have encountered serious debt-servicing difficulties. Direct foreign investment in the low-income countries has been mainly confined to energy and mineral development, and official institutions are also constrained in their non-concessional lending to low-income countries by creditworthiness considerations. So for the low-income countries, there is no substitute for official development assistance.

Properly administered, development assistance can strengthen economic institutions, promote improved policies, increase the productivity of domestic resources, and help reduce poverty.

It makes sound economic sense -- prudent political sense -- to continue effective programs of development assistance in low-income countries. It would be folly to disrupt progress in those low-income countries which, against all odds, have built some momentum for the long climb toward decent living standards. And most of the world's poorest countries have been hard-hit by the global recession. They need concessional assistance, urgently and on a sustained basis.

The International Development Association, the World Bank's concessional affiliate, is the largest channel of assistance to the world's low-income countries.

IDA works. Its projects nearly all achieve high rates of return, and its success in helping to build institutions and policies conducive to progress in poor countries has been thoroughly documented.

But the IDA lending program has fallen, and its future is uncertain. The need for IDA is great, the effectiveness of IDA is beyond question, but the political will to support IDA is in doubt.

This assembly can help. UNCTAD-6 should sound a clear call for continued assistance to the world's poorest countries. Failure to sustain and strengthen IDA would be turning our backs on the poorest peoples of the world.

* * *

Mr. Chairman, distinguished delegates:

UNCTAD-6 provides an opportunity to rebuild support for the liberal, multilateral trading system. UNCTAD-6 provides an opportunity to revitalize international capital flows by supporting the expansion of the IMF, IBRD, and -- most especially -- IDA.

No nation represented here -- rich or poor -- can afford to waste this precious opportunity to build consensus on urgent, feasible measures to repair and improve the structures of international trade and finance.

Thank you.

END

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Fast action by the IMF and other monetary authorities, cooperation from commercial banks, adjustments in many developing countries, and the stirrings of economic recovery in the industrial countries have together bought us some time. But in order to achieve sustained expansion of the global economy and to reverse today's negative trends in the developing countries, we will need to strengthen the structures of international trade and finance.

My statement today is in three parts: first, why we need corrective initiatives; second, directions for reform in trade; and third, essential measures to revive the flow of international finance.

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The world economy is starting to show signs of recovery from its worst recession since the Depression of the 1930s. The recovery that is underway in the industrial economies is tremendously welcome. Nothing is more important to the global economy right now. But the recovery gives us no cause for complacency. Even with the recovery, a lot of things have to go right for the world economy to achieve much improvement in the Eighties over the relatively slow growth of the Seventies.

Economic growth in the industrial countries slowed down during the Seventies, and by the end of the decade inflation seemed out of control. Determined anti-inflationary policies -- with heavy reliance on monetary policy and continued budget deficits -- prolonged the recession of the last few years. Although interest rates have begun to come down, they are still at historically high levels. Commodity prices have started to rise from their 1982 lows, but they are still considerably below previous levels.

An unprecedented number of developing countries have had problems servicing their debt. Commercial banks have reduced the pace of their lending to developing countries, and that has made the liquidity problems of borrowing countries more acute. Debt rescheduling has given many developing countries a breathing spell. But they need continuity in the flow of long-term capital for their development, and an expansion in their exports to permit them to meet their future debt obligations.

Contributions of development assistance have been fluctuating and uncertain. Preliminary figures for OECD donors in 1982 indicate a heartening increase of nine percent over 1981. But both OECD and OPEC contributions were down sharply in 1981, and current plans and budgetary indications suggest that development assistance will be growing more slowly than in the past.

Finally, protectionist pressures are threatening the liberal, multilateral trading system. The GATT Ministerial Meeting last November reaffirmed the international commitment to resist protectionism, but the long agenda prepared at the Ministerial Meeting awaits action.

Under these global conditions, the developing countries have not been able to maintain the momentum of progress. Average per capita income for the developing countries declined in 1981 and 1982.

In response to immediate financial problems, many developing countries are having to take measures that will retard growth in the future. Some countries are cutting deeply into vital programs of investment, for example. Proven and promising initiatives to raise the production of small farmers, improve education and health, and provide services to the urban poor are being scaled back or dismantled because of budget pressures.

Progress has been retarded in nearly every part of the developing world, but most dramatically in Africa and Latin America.

In the low-income countries of Africa, average per capita income was already declining roughly one percent a year between 1973 and 1980. In 1981 and 1982, the rate of economic decline in low-income Africa more than doubled. The average income of people in low-income Africa has dropped one-eighth over the last ten years.

Average per capita income in Latin America was growing between two and three percent a year throughout the Seventies, but in 1981 and 1982 it declined about two percent a year. And the full impact of last year's cut-backs in imports and government spending has yet to register on employment and income. Unemployment and cuts in public expenditure usually affect low-income people most severely.

Stagnation in the developing economies is forcing them to cut imports from the rest of the world, and that is dampening the recovery of the industrial economies. The drop in imports by the non-oil developing countries accounted for 30 percent of the total drop in world imports in 1982. The industrial economies cannot achieve a strong, sustained recovery unless the developing economies also revive.

Developing countries may have more difficulty expanding their exports in the Eighties. Import barriers will contribute to slower growth in their manufactured exports. More generally, the long-term tendency for international trade to grow faster than world output may be less marked in the future. The industrial countries already trade a large share of what they produce, and an increasing share of what they produce consists of services (which are traded less than goods).

In the tough global environment of the Eighties, corrective action in the domestic policies of individual nations is more important than ever. Nearly all developing countries have scope for further improvement in their trade policy, the efficiency of investment and of public enterprises, agricultural incentives, and population policy. Developing countries that postponed needed adjustments in the Seventies, when credit was more readily available, have been particularly hard-hit by the recession, while countries with sound, flexible economic policies are generally coping more successfully.

The industrial countries, too, have plenty of scope for domestic policy reform. Policy improvements in the industrial countries -- to get government deficits under control, for example, or to encourage higher levels of investment and productivity -- are crucial, not only for the prosperity of the industrial countries themselves, but also for the global economy as a whole.

In addition to what nations can do by themselves, however, we also need a fresh impulse of international cooperation on economic issues. There has been significant international cooperation in coping with the economic turbulence of the last ten years, but the advances in international cooperation have not been enough to maintain rapid worldwide growth.

More recently, nations have too often wavered on their commitments to established policies and announced economic principles. The multilateral trading system is under siege, but no effective counter-initiative has yet been launched. International lending by commercial banks has slumped, but key industrial nations are reticent about expanding official lending. The needs of the world's poorest countries are especially great right now, but the donors have not made the commitments necessary to assure that development assistance will rise to meet the challenge.

Allow me, then, to focus on a few essential and attainable initiatives to repair and improve existing systems of international trade and finance.

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Let me begin with trade.

For most of the period since the Second World War, an increasingly open trading environment encouraged trade to grow faster than production. The dynamic expansion of trade was a powerful stimulus for economic improvement in both the industrial and developing countries.

But the world has come to a crossroads in its approach to international trade. In our view, strengthening liberal trade is central to worldwide recovery. If we fail to strengthen the system, trade barriers will accumulate, with adverse effects on the development prospects of all countries.

The current pressures for protection are partly provoked by recession, but more protection makes the recession worse -- by discouraging production in other countries and by making the protected economy less efficient for years to come. Protection can, to a limited extent, sustain employment in threatened industries, but it reduces employment elsewhere -- in other countries and in other industries of the same country. Protection can also postpone difficult adjustments to shifts in international comparative advantage, but only at the cost of increased inefficiency and damage to the protected economy.

Some of the advocates for protection are trying to revive discredited arguments by using the new terminology of "managed trade." But "managed trade" is just one more name for government intervention to shelter uncompetitive industries. "Managed trade" locks labor and capital in less productive sectors, strengthens inflationary pressures, and starves dynamic industries of needed resources.

The major trading nations must take the lead in strengthening the trading system. So we applaud their resolve to roll back protection. This resolve was articulated by the OECD ministers at their meeting last month in Paris and confirmed by the heads of state at the Williamsburg summit.

The developing countries have an especially high stake in trade. Open and expanding trade has been crucial to the rapid economic growth and structural transformation that many developing countries have achieved over the last generation. The best way for developing countries to revive their economies now -- and the only way for indebted countries to finally overcome their current financial difficulties -- is to expand exports.

The success of countries that have pursued outward-looking development strategies has been thoroughly documented through studies done by The World Bank and others. Outward-looking strategies are characterized by realistic exchange rates, equal incentives for domestic and export production, and willingness to permit import competition. The evidence is clear that such strategies improve resource allocation, boost growth, and make countries better able to withstand external shocks. The newly industrializing countries provide some of the most dramatic examples of how exports can stimulate rapid growth.

Access to markets in the industrial countries is an essential complement to outward-looking strategies on the part of the developing countries. The industrial countries should welcome competitive imports from the developing countries, and allow their own resources to be gradually reallocated to reflect shifts in comparative advantage.

The wide differences in production costs between industrial and developing countries offer a powerful opportunity to stimulate economic efficiency and higher real incomes on both sides through trade. Adjustment can be painful, but it is difficult to imagine how the industrial countries can return to a pattern of sustained economic expansion without such stimulation from the developing countries. Today's newly industrializing countries must gradually move up the scale of manufacturing sophistication, which would then allow the next rung of developing countries to become increasingly competitive in simpler, more labor-intensive lines of manufacturing.

Barriers to imports from the developing countries stymie this dynamic process. Quantitative restrictions, such as the multifibre agreements, are particularly onerous, because they assign quotas on the basis of past exports. That locks out competitive lower-income developing countries.

All developing countries have gained increased access to export markets from GATT negotiations, because multilateral trading rules assure all nations the same access that big trading partners negotiate. However, while some developing countries have been very active in multilateral trade negotiations, many developing countries have not participated fully. The developing countries could have gained even more from trade negotiations under the auspices of GATT, if more of them had participated actively.

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Given the importance and possible difficulty of expanding developing-country exports in the Eighties, developing countries need to carefully assess the benefits and costs of more active participation in the GATT. Developing countries have managed to obtain special and differential treatment. But the relatively small and uncertain benefits of these arrangements may not make up for the costs of not taking full advantage of the trade liberalization process.

Industrial countries should both stop erecting new trade barriers and dismantle existing ones. It is particularly damaging when barriers to trade are erected outside the GATT arrangements, often indirectly and covertly.

The possibility of imposing temporary import restrictions is a useful safety valve; it would be far more difficult to mobilize support for liberal trade policies if this possibility were not allowed. But the process of reviewing requests for protection should be transparent, and those who stand to lose from protection, as well as those who stand to gain, should be allowed to make their case. As resolved at the 1982 GATT Ministerial Meeting, we need a more precise safeguard code. Under the new code, restrictive measures should be accompanied by measures to promote adjustment to changes in comparative advantage.

Initiatives to strengthen the open, multilateral trading system -- complementary initiatives by both the developing and industrial countries -- are essential to improved economic prospects for all countries.

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Let me talk about each of the four main components of international capital flows in turn -- private lending, direct foreign investment, official lending, and official development assistance.

The growth of private lending declined sharply in 1982, as net commercial-bank lending to the developing countries (that is, new lending minus the repayment of principal) dropped from $43 billion in 1981 to $22 billion in 1982. Net lending in 1982 was not nearly enough to cover interest payments, and net lending was negative in the second half of 1982 -- for the first time since such records have been kept.

Net lending to Latin America dropped drastically -- from $31 billion in 1981 to $12 billion in 1982.

In 1982 and early 1983, there has been some restructuring of commercial debt, which eases repayment problems. But net lending is likely to grow slowly again this year, and may still be too little to cover interest payments.

The drop in commercial-bank lending has been more severe than an overall evaluation of the creditworthiness of major borrowing countries would suggest. But it is unrealistic to expect a return to the former growth pattern of commercial-bank lending within the foreseeable future.

The difficulty of commercial-bank borrowing, together with high real interest rates, makes direct foreign investment more attractive to developing countries. Most developing countries could -- and should -- do more to attract direct foreign investment. But accelerating direct foreign investment will take time, and net direct foreign investment was only a third of net private lending in 1980. So while direct foreign investment can substitute for borrowing, it cannot possibly grow fast enough to make up for the present disruption in commercial lending.

Official nonconcessional lending ought to be expanded more quickly in the Eighties. This would help offset the slowdown in commercial lending; and since official lending is long-term at relatively stable rates of interest, official lending helps to stabilize the debt payments of borrowing countries.

More important, official lending -- especially through the multilateral financial institutions -- supports projects and policies which result in a more productive and equitable use of domestic resources. Mainly because of this effect on policy, official lending also encourages the expansion of commercial lending and investment.

The International Monetary Fund has been the world's front-line defense against sudden, damaging cut-backs in economic activity because of balance-of-payments problems. Ratification of the proposed increase in IMF quotas is essential.

But current debt problems are only one facet of a more fundamental problem, which also involves the stagnation of trade and development. Developing-country debt problems cannot be resolved without initiatives to strengthen world trade. Nor can debt problems be resolved without initiatives to maintain a growing flow of medium- and long-term capital to the developing countries to supplement domestic investment and revive their economies. Therefore, given the slowdown in commercial flows, an expanded role for The World Bank, together with the regional development banks, is absolutely essential.

The World Bank is taking action to accelerate its disbursements. We are also working to attract commercial investment to the developing countries, through co-financing and the IFC.

Also, in response to the need for difficult policy decisions in many countries, The World Bank is directing more of its resources to support urgent policy decisions. It is often difficult to reduce barriers to trade or make other structural adjustments, especially now that many developing economies are depressed. When a country reduces barriers to trade, for example, protected industries may begin suffering the costs immediately. The improved incentive structure will encourage new, more efficient industries -- new and better employment opportunities -- but that takes time and investment. So external financing in support of structural adjustment can be crucial.

The World Bank could identify and supervise a larger volume of high-quality investments in the developing countries, and it could also borrow much more on the world's capital markets. But present planning assumptions allow for virtually no real growth in IBRD commitments in the next few years.

The Bank's management is proposing that, starting next year, IBRD lending expand by about five percent a year in real terms. We are also preparing a plan for a Selective Capital Increase for IBRD, parallel with the agreed increase in IMF quotas. Unless we address the issue of IBRD's capital needs in a timely and realistic way, IBRD will face severe constraints within a couple years.

This assembly should remind the world that effective international institutions need to be supported and adequately capitalized, so that they can expand in accordance with the needs of the Eighties.

Finally, allow me to address the urgent issue of official development assistance and, in particular, IDA.

The world's low-income countries -- that is, countries with national incomes below $410 per person per year -- benefit relatively little from non-concessional capital flows. Most low-income countries cannot meet their needs for external capital by commercial borrowing; many low-income countries that borrowed significantly on commercial terms in the 1970s have encountered serious debt-servicing difficulties. Direct foreign investment in the low-income countries has been mainly confined to energy and mineral development, and official institutions are also constrained in their non-concessional lending to low-income countries by creditworthiness considerations. So for the low-income countries, there is no substitute for official development assistance.

Properly administered, development assistance can strengthen economic institutions, promote improved policies, increase the productivity of domestic resources, and help reduce poverty.

It makes sound economic sense -- prudent political sense -- to continue effective programs of development assistance in low-income countries. It would be folly to disrupt progress in those low-income countries which, against all odds, have built some momentum for the long climb toward decent living standards. And most of the world's poorest countries have been hard-hit by the global recession. They need concessional assistance, urgently and on a sustained basis.

The International Development Association, the World Bank's concessional affiliate, is the largest channel of assistance to the world's low-income countries.

IDA works. Its projects nearly all achieve high rates of return, and its success in helping to build institutions and policies conducive to progress in poor countries has been thoroughly documented.

But the IDA lending program has fallen, and its future is uncertain. The need for IDA is great, the effectiveness of IDA is beyond question, but the political will to support IDA is in doubt.

This assembly can help. UNCTAD-6 should sound a clear call for continued assistance to the world's poorest countries. Failure to sustain and strengthen IDA would be turning our backs on the poorest peoples of the world.

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Mr. Chairman, distinguished delegates:

UNCTAD-6 provides an opportunity to rebuild support for the liberal, multilateral trading system. UNCTAD-6 provides an opportunity to revitalize international capital flows by supporting the expansion of the IMF, IBRD, and -- most especially -- IDA.

No nation represented here -- rich or poor -- can afford to waste this precious opportunity to build consensus on urgent, feasible measures to repair and improve the structures of international trade and finance.

Thank you.

END