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GLOBAL INTERDEPENDENCE IN THE 1980s

Remarks

As Prepared For Delivery By

A.W. Clausen, President

The World Bank

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I am delighted to be invited here to speak on "Global Interdependence in the 1980s."

That is an immensely important theme. And because it is, I propose to try to deal with it as candidly and clearly as I can. And I look forward to a very lively discussion from you.

Let me start with the following proposition.

I think that much of the trouble that the international community has today in trying to get agreement on what ought to be done about the global economy is due to this: that virtually all of the parties to the dispute tend to get bogged down in vast oversimplifications.

Now, that is not so surprising.

We're all subject to that temptation. The human mind likes its perceptions of reality served up in simple and uncomplicated concepts. It's much easier to digest that way. But the difficulty is, of course, that reality itself is seldom so simple. It is more usually brimming over with complexity.

The result is that oversimplifications about global economic models don't help very much. And I really don't think they help very much in international politics either. But I am not here to talk about politics. As President of the World Bank, my job is to be concerned with the health of the global economy, and all its various components.

Our 141 member countries, as well as those few societies that are not members of the World Bank, represent a huge amount of economic complexity. And that is why I believe that the old "North-South" economic model of the international economy of the 1960s and the '70s is no longer very useful.

It is not very useful because it has tended to create a bipolar concept of world economic dynamics that glosses over -- or completely leaves out -- a whole series of other elements of economic activity that just do not fit into a rigid "North-South" dichotomy.

Now, I want to be understood carefully in this.

My point is not to assign blame to anyone. What I am simply saying is that the perception itself -- whatever its original value may have been to help us to understand the global economy a decade or so ago -- has now reached a point of diminishing returns.

There is the added point that I don't think it helps very much to apply dogma and ideology to global economic problems. What we all need are pragmatic economic strategies that result in plus-sum games in which all the parties benefit, and no one really loses.

And such strategies are certainly attainable. But only, I think, if all the parties recognize the world economy for the dynamic, evolving, and largely underestimated phenomenon that it actually is.

What are some of the elements of that dynamism?

Well, let me highlight just a few of them.

First of all, there are a number of countries that are industrializing very rapidly -- indeed at a pace that is almost as fast as Japan's was over the past two decades. These are societies such as Korea, Brazil, Mexico, Malaysia, and a number of others.

This group of countries -- and one can identify roughly about 20 of them -- are carving out for themselves an enlarged share of world trade, investment, and total output. They are evolving beyond the traditional "developing country" concept, and they do not fit at all into a static "North-South" model of the world economy. They are countries very much on the move.

Secondly, there are the capital-surplus oil-exporting countries of the Middle East. Where are we to fit these countries into the "North-South" concept? Here are societies that in the last few years have embarked on gigantic development programs to create instant physical infrastructure, establish in record time a diversified industrial base, and secure before the century is out a sound economic future.

And even with such bold plans underway, some of these countries still have substantial funds available for international investment. As a result, they have become a major force in the world's traditional financial markets, and are establishing new global financial centers of their own. They are neither "North" nor "South". They are something entirely new. They are an incredibly dynamic influence in the world economy. And they are very impressive.

Still a third element in the dynamism of the contemporary economic scene is the enormous expansion in world trade. This has in part been due to the emergence of these new centers of economic activity that I have just described, but it has other sources as well.

What is astonishing is the pace of global trade's growth. In 1970, only one-eighth of total world output was traded internationally. Ten years later, that share had increased to nearly one-quarter.

Fourthly, there is the fact of the immensely increased demand for capital. It has happened so fast, we tend to overlook it.

Today, for example, we almost take the Euromarket for granted. We forget that as short a time ago as the late 1960s there was a real question of whether or not it would survive.

The truth is that our capital market systems have changed dramatically, just as the global monetary system has. The era of fixed exchange rates seems now in the almost unremembered past, and yet the era of floating exchange rates is only about ten years old.

Nor is the Euromarket -- based in London, Luxembourg, and other European centers -- the unique source of international finance it once was. Today there is an important Asian international capital market, another of increasing scope in the Middle East, and indeed what now amounts to an around-the-clock, 24-hour-a-day global money trading system.

These capital markets have been meeting the needs not merely of the traditional industrialized nations, but of the developing countries as well. In fact, private capital flows to the oil-importing developing countries have doubled in terms of their combined gross national products from 0.6% in 1970 to 1.2% in 1980; or in still more vivid nominal dollar terms from $3 billion at the start of the decade to $28 billion at the end.

And fifthly and finally, there has now been the entrance onto the global economic stage of the centrally planned economies. China has moved out of the wings. And Yugoslavia, Poland, Hungary, and Rumania have all become active traders with the non-Communist world, and borrowers abroad as well.

Now, obviously, the pace of all this economic change differs from one part of the globe to the next. And it is this very diversity and dynamism that I have described that reveals the inherent oversimplification of the North-South bipolar concept.

The demonstrable economic fact is that we are living in a multipolar world -- not a bipolar one.

And if we want to see realistically ahead down the economic road of the 1980s -- admittedly not an easy task, and one almost certain in the end to be full of unexpected surprises -- then we have to begin at least with a clearer view of the individual elements in this multipolar configuration.

So, without being dogmatic -- and recognizing that the contours of the economic geography are in constant and dynamic movement -- let me sketch out at least eight discernable poles of high economic significance in our current international environment.

These eight clusters of economic activity are themselves, of course, generalizations, and it is possible to construct models that are far more elaborate and detailed.

But viewing these eight aggregated economic centers as reference points sheds far more light on the current state of the global economy -- and its probable path of evolution -- than does the North-South model.

What, then, are these eight poles of special economic significance?

Four of them are the centers of high industrialization: Western Europe, North America, Japan, and Eastern Europe. Another key group is that of the capital-surplus oil-exporting countries in the Middle East. There are the newly industrializing nations -- some 20 of them -- that I have mentioned. Add to this, the great pcpulous countries of Asia: China, India, Indonesia, Bangladesh, Pakistan, and others. And finally, there are the severely poverty-stricken countries of Sub-Saharan Africa.

Let me comment briefly on each of these eight economic poles, underscore their rate of change, and indicate how they interface with the global economy as a whole.

Western Europe -- with a population of 300 million people, and a combined annual gross national product of over $3 trillion -- is the largest global trading entity. It accounts for slightly more than 30% of total world trade.

There are two features that distinguish it from other industrial areas. It is particularly open to trans-border commerce: many European countries export over 25% of their gross national product.

And, secondly, after a period of quick growth in the 1960s, Europe's momentum has slowed down. This, combined with rapid development elsewhere, has resulted in a dramatic loss of its share of world output: from nearly one third of the total to one quarter.

North America, a very different economic pole, has also seen its share of world output decline, but more modestly: from roughly 30% in 1960 to somewhat less than 25% in 1980. Of the many economic characteristics of my own home area of the world, there are two that are particularly relevant to this discussion: its use of energy, and its savings pattern.

By any international comparison, American consumption of energy is exceptionally high, and the United States alone buys roughly 15% of OPEC's total output. Were the U.S. to allow greater scope for domestic market pricing of petroleum, this situation could change. For the present, however, it remains a very significant international economic consideration.

The U.S. record on domestic savings needs improvement. It has slowed -- and continues to hamper -- the accumulation of adequate capital and business investment in order to insure strong productivity gains and faster economic growth.

As for Japan's economy, well, I needn't remind this particular audience that its performance over the last two decades has been incredibly dynamic. And the Japanese impact on the global economy has been so immense that what has transpired here in these islands has rightly been described as the world's second Industrial Revolution.

Japan's share in global product in 1960 was only 3.4%. By 1980, it had jumped to 10.5%. And during this brief twenty-year period the value of its industrial output alone increased almost fivefold in real terms: from over $100 billion in 1960 (in 1979 prices) to nearly $500 billion in 1980.

Just as was the case in Europe in the 19th Century -- during the world's first Industrial Revolution -- so here in Japan the economy was transformed by its new ability to export. The value of its exports rose from $10 billion in 1960 to well over $100 billion in 1980. And today Japan exports nearly one-fifth of the total output of its manufacturing sector.

But I needn't recount the story in detail here. Many of you in this very room helped bring that economic miracle about.

Eastern Europe is another center of industrialized nations, but in contrast to the dynamism in many other parts of the world, it has been largely static in its economic performance. It has sought to preserve its share in world output, which has remained at about 11% for over two decades.

But the cost of maintaining this average has been great. East European consumers have not enjoyed many of the goods and services that are commonly available in nations elsewhere with comparable income levels. The region is now discovering the heavy price of just standing still. There is clearly a need to move, and to become a more active part of the global economy. This is beginning to happen, though the internal strains of this transformation are clearly evident.

In contrast, the newly industrializing countries -- those following in Japan's footsteps -- have over the past 20 years had a pronounced impact on the world economy. These roughly 20 countries, scattered throughout Latin America, Southern Europe, and East Asia, have doubled their share of the global product: from 5% in 1960 to 10% in 1980.

While the rate of growth of this advance in output was somewhat less spectacular than that of Japan's -- 8.4% as against 9.6% -- it was nevertheless three times that of poor developing countries. These vigorous societies are now poised for further growth and modernization.

The direction they take may well be much the same that Japan charted in the 1960s and '70s: moving out of the labor-intensive stage and into high-technology production. And they may well export a large proportion of that increased output, not merely to the industrialized countries, but to the other centers in the multipolar world that I am describing.

Now, another grouping comprises the capital-surplus oil-exporting countries of the Middle East. They have received, of course, an immense amount of economic attention, but most of it has focused on the surpluses themselves, and on the counterpart deficits in the oil-importing nations. What has received much less attention is the role that these capital-surplus countries have begun to play as another pole of intense economic activity.

These societies are short of labor resources. To sustain the huge domestic development programs they launched in the 1970s, they have had to import a very large number of workers: some three to four million of them.

These workers have demonstrated a high propensity to save, and they have remitted the bulk of their earnings to their families in their countries of origin: some $4 billion in 1980 alone.

For many of the labor-exporting countries -- especially those in South Asia -- these remittances have paid for much of their increase in the cost of imported oil. Further, the concentration of foreign workers and their families in the capital-surplus countries has, in itself, created new markets for their home countries. Pakistan, for example, has increased its share of total exports to the Middle East from 2% in 1970 to 14% in 1980.

What is involved in all of this, therefore, is a complex set of economic relationships that are being forged between the capital-surplus oil-exporting countries and the labor-surplus nations on their periphery.

Now, the populous nations of non-industrialized Asia represent a success story that has not yet received the full attention it deserves. Like the progress of the newly industrializing nations, these vast traditional societies of Asia have demonstrated the dynamism that can be achieved when the critical mix of domestic policies, indigenous effort, mobilized savings, and adequate investment are brought to bear on high-priority development objectives.

The great success story in these countries is agriculture, and it is leading this area of the world out of underdevelopment and into modernization. Instead of grappling with chronic shortages, many of these countries are now approaching not only self-sufficiency in food grains, but are likely soon to become grain exporters.

There is still, of course, poverty in populous Asia, but the stunning fact is that this area has been able to absorb no less than 700 million additional people in the past two decades, and yet still boost average per capita income in the same period by 50%.

The population problem in these societies has emphatically not disappeared -- and still must be met with sustained and serious and appropriate effort -- but fertility rates have begun to decline, and hence population growth rates are gradually coming down.

As I have indicated, populous Asia has one of the largest reservoirs of trained manpower in the world. And this human resource is not only assisting countries in the region, but is also providing labor in the Middle East, Western Europe, and North America.

Finally, the eighth pole I want to touch on is Sub-Saharan Africa. It is by far the poorest part of the world economy. And hence it is in this region of the globe that the development community today faces perhaps its greatest challenge.

Sub-Saharan Africa is the one major area of the world in which 18 countries actually suffered a decline in income per capita during the 1970s. And present projections indicate virtually no growth in income per capita in the current decade for the majority of countries in the region.

But even this disappointing outlook rests on projections -- not predictions. And in our recent World Bank report on the development problems of Sub-Saharan Africa -- undertaken at the request of our member governments in the region themselves -- the analysis suggests that by more efficient use of resources, and more appropriate policy responses to both the world economy and to the domestic conditions in the individual countries themselves, these societies can do very much better than the projections.

But in view of the scope of the changes required, and the magnitude of the investment programs these countries must undertake, we in the Bank have urged a doubling of aid to Africa. To reverse the decline and stagnation of the past decade will require a joint effort by the individual countries of Africa themselves, and the entire international development community.

These, then, are some of the characteristics of eight poles of economic significance in our contemporary global economy.

There is simply no doubt that we live today in a multipolar world. Each of these clusters of economic activity is involved in trade and investment with others. And as I say, though I have picked out eight such centers, it is quite possible to disaggregate them even further, and formulate much more complicated models.

There is, in short, nothing sacrosanct about the number eight. It really doesn't matter as long as one perceives the central point about the world's current economic activity: that it is truly global in nature, and that individual national economies are already -- today -- far more genuinely interdependent than either their governments, or their people, realize.

And that is why I think the "North-South" model is no longer very helpful.

It has become so static and so vastly oversimplified -- and often so contentious and confrontational in its rhetoric -- that it tends to obscure reality rather than illuminate it.

Labels and slogans, and buzz words and battle cries are very human phenomena -- and have their place -- but they normally aren't very useful for disentangling complexity. And that is what we have in the world economy today: a whole complicated ganglia of interdependent relationships, and a very dynamic environment in which they are all interacting.

What we need to do is to try to sharpen our vision of all this complication -- not blur it.

Now, how will this environment be likely to evolve in the course of the 1980s?

I say "likely" because, of course, the precise pace and dimensions of that evolution are beyond anyone's ken. None of us can read the future with clairvoyance, but one thing is sure: 1990 is not going to look like 1980.

If you doubt that, just reflect on how different 1980 looked from 1970.

Could anyone in 1970 have predicted with precision what in fact has transpired in the global economy over the past ten years?

Clearly not. Nor can anyone present us with an infallible scenario for the next decade.

But we can speculate, and given the multipolar world we live in, such speculations can at least jog us out of our overcomplacent -- and oversimplified -- formulations of the past.

The last two decades have, of course, been characterized by unexpected changes in the percentages of global output achieved in various geographical regions, and have witnessed emergent areas achieving larger slices of the global output pie. And, of course, in the meantime, the pie itself has gotten bigger, and more tasty.

These changes may well accelerate.

The progress of the newly industrialized countries, and the development of the capital-surplus countries, will almost certainly result in their achieving a still bigger proportion of total world production. As a consequence, even with a respectable recovery from the present recession in Western Europe and North America, it is possible that these older industrial countries will by 1990 account for less than half of total world output, compared to over two-thirds in 1960.

At the same time, the newly industrialized countries -- if we include Japan -- may well account for over one-quarter of world production by the end of this decade, as compared to just one-twelfth in 1960.

We have to remind ourselves that there is simply no precedent in history for the dynamic rate of change in the geographic spread of global output in our era, and in the structure and character of world trade.

By 1990 that trade may well expand at a pace almost twice as fast as the growth in world output. In 1980,23% of that output was traded; by 1990 it could well reach 30%.

Possibly four-fifths of such an increase in world trade will come from manufactured goods; and of that increase, the newly industrializing countries may well contribute a fourth. In other words, a much larger proportion of world demand for manufactured goods is likely to be supplied by these developing countries that are undergoing what can be termed history's "third Industrial Revolution."

Conversely, it is likely that the developing countries' exports of commodities will grow at a considerably lower rate, which means that those economies that depend primarily on commodities for their export earnings will have to turn to other strategies to boost income for their development needs.

The probability, too, is that the newly industrializing countries will supply a much larger share of the traditional manufactured goods to the older industrial nations of Western

Europe and North America. To compensate for the loss of this portion of their domestic markets, these nations are likely to give greater emphasis to products of high technology.

Indeed, technological advance is likely to be a principal source of these societies' future manufacturing growth, with the new silicon-chip technologies, and the overall explosion in the information and data-processing industries, perhaps leading the way.

Another characteristic of the decade ahead will, I believe, be the expanding role of the private sector in meeting the world's capital requirements.

We all know the story of the past ten years. It was the private sector that met the enormous needs for capital by both the developed and developing countries, once the surge in the price of petroleum had dramatically altered the terms of trade between different parts of the globe.

In 1970, the debt owed to private lenders by developing countries amounted to only 45% of the total. By 1980, this proportion had burgeoned to 65%: $284 billion out of $439 billion.

During these years it was the particularly remarkable growth of the Eurocurrency markets that made it possible to recycle the surpluses of the oil-exporting countries to many nations faced with mounting deficits.

The decade of the Eighties is likely to witness the advance of a number of other capital markets: those working out of such locales as Panama, Singapore, Hong Kong, Kuwait, and Bahrain. The growth of capital markets dispersed widely about the globe is, of course, a reflection of the broader geographical contributions to total world output. Dynamism in the capital markets is tied to dynamism in the global economy, and simply no longer fits into a narrow "North-South" configuration.

Still another characteristic of the decade ahead will, I believe, be an acceleration in the movement of workers across international frontiers. Estimates are difficult to make since not all workers migrate legally, but there are today perhaps some 15 million foreign workers in North America, Western Europe, and the Middle East.

In the Middle East alone, the 4 million foreign workers already constitute 50% of the work force in some countries. And the movement of labor toward the newly industrializing countries has already begun: there are foreign workers in both Singapore and Hong Kong.

This whole vast movement of people across boundaries from labor-surplus countries to labor-deficit societies has introduced another dynamic in the global economic system that is not fully grasped today.

As I have pointed out, remittances by workers not only help pay for the imports of their countries of origin, but also constitute new export markets for those same countries. Thus, migrating workers have created new dynamic forms of financial intermediation.

As economic growth proceeds at differential rates in various parts of the globe, there is reason to expect that more workers will go in search of jobs from countries in which there is unemployment and severe underemployment to those in which industrial or service sectors are short of workers.

It is not inconceivable that another 10 million people may migrate as workers over the next decade. If they do, and if they remit funds to their families at roughly the same rate that their predecessors have, this capital flow alone (in 1980 prices) could amount to $40 billion a year by 1990.

The world trade in manufactured goods, the flow of private-sector financial resources, the movement of workers across international frontiers -- all of this at historically unprecedented levels -- means that by 1990 the world may well be qualitatively very different from what it is today.

To grasp the significance of these possibilities, we clearly have to think in a dynamic -- rather than in a static -- sense. A qualitatively different world will require qualitatively different instruments of economic management.

It is from this perspective that my colleagues and I are thinking about the future of the World Bank.

The World Bank is, of course -- and will remain -- a bank. And a very sound and prudent bank. But it is more than just a bank. It is an international development institution, with most of the world's governments as its shareholders. And its membership is likely to increase.

But as globally owned and operated as it now is -- and may even more universally become -- it cannot do everything in the development field, and certainly ought not to try.

Its essential role is to be catalytic. It facilitates sensible things happening in both its developing and developed member countries.

It brings finance, honest and disinterested advice, and invaluable technical assistance to bear on the highest priority objectives of its developing member countries -- and it stays the course with them.

It is not in the business of redistributing wealth from one set of countries to another set of countries. It is not the Robin Hood of the international financial set, nor the United Way of the development community.

The World Bank is a hard-headed, unsentimental institution that takes a very pragmatic and non-political view of what it is trying to do.

And what it is trying to do is clear. As I have pointed out before, the World Bank's basic objective in any developing country is precisely the same: to assist the country both to accelerate its economic growth and enhance the economic opportunities of its people, and thus make possible a better standard of living for all.

And let me stress again, as I did last fall to our Board of Governors: the interests of the two constituencies that the Bank serves -- the borrowing and lending countries -- are mutually reinforcing. Neither can prosper fully unless both prosper, and neither can be served adequately unless both are served.

The World Bank's mandate is to contribute to the economic success of its developing member countries, but it can only make that contribution if it retains the support of the governments and private markets of capital-exporting countries.

The World Bank in the 1980s is going to have to continue to be prudent and conservative -- as any fiduciary investor must -- but given the realities of the world today, great demands will be made on its creativity and inventiveness as well.

For there are very real economic challenges in the world, and they are likely only to get more complicated, more insistent, and more interrelated. They are not static problems: they are dynamic problems, evolving, growing, and proliferating into new forms of economic and social pressures.

The old easy answers -- if there ever were any easy answers -- will not be adequate to cope with them. They will demand redoubled resolve, redoubled effort, and perhaps most fundamental of all, redoubled understanding.

The financial contribution, then, that the World Bank can make to international development throughout the 1980s -- through increased leveraging, new product design of our lending programs, and greater tailoring of our financial instruments to specific country needs -- is extremely important.

And the technical and intellectual effort that the World Bank ought to make is no less so.

Indeed, in the long view of history, perhaps the most enduring contribution of all may turn out to be the simple fact that the World Bank -- now in its 36th year of operations -- has turned out to be a prototype institution of the world's new international era of interdependence.

Its pragmatism, its freedom from political polarity, and its emphasis on consensus and cooperation has made it possible for the World Bank to serve all its member countries -- despite their own sharp diversity and disagreements among one another.

Its role is to bring all its member countries together in a joint -- and mutually rewarding -- global economic effort. And that is what it does quietly and successfully, week after week and year after year.

The multipolar world in which it operates will evolve and grow only more interdependent in the decade ahead, and the Bank will evolve and grow with it.

More than that, the new types of institutions that will emerge in the more distant future -- in response to evolving interdependence -- may well be able to build on the prototype of the Bank.

The world, after all, that all of us in this room want -- a world that is more rational, more equitable, and above all, more peaceful -- is possible.

And in the end, surely, the meaning and worth of our own lives will be largely defined by the personal investment we are willing to make in its attainment.

Thank you very much.