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REMARKS

by

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before the

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Good Afternoon, Ladies and Gentlemen.

I am delighted to be here, and to survey with you some of the points on the global economic horizon as all of us move on from the turbulent waters of the Seventies into the uncharted seas of the Eighties.

What kind of a voyage is it likely to be?

Challenging, for sure. And almost certainly full of surprises.

One thing is clear. We have not yet left all the squalls and heavy weather behind. Unemployment around the world remains much too high. Growth rates, on average, are much too low. And persistent inflation, and volatile interest rates, continue to penalize recovery.

Governments virtually everywhere are grappling with these difficulties -- searching for domestic policies that will mitigate internal pressures, and yet keyed into a pervasive external economic environment over which no single nation -- or even group of nations -- has decisive leverage.

Economic interdependence, today, is not just the surface rhetoric of our era. It has become the bedrock reality of our global relationships.

And there is an old and expensive lesson of history which reminds us that prolonged economic strains often evolve into serious political confrontations.

There is a perennial temptation for governments everywhere at a time of economic discomfort to substitute short-term economic placebos -- medication that goes down easy, but deals only with symptoms -- for harder-to-swallow, long-term therapy that can hit the disease at its root.

I want to elaborate on this theme today, and within this framework touch on global trade and investment, the plus-sum dynamics between developed and developing societies, and the relationship between military aid, economic assistance, and security. All of these issues, of course, have an important impact on the concerns of both government and business.

And the truth is that the global economy today is far more diverse and complex than some of the debates within the international community imply.

Whatever theoretical and abstract economic models we may construct for purposes of illustration, the actual economic reality is that we are all living in a very complicated multipolar world -- and not in a simple bipolar one.

As I have suggested recently, there are at least eight poles of high economic significance that are readily discernible in our current international environment. They represent important clusters of economic activity, although they are, themselves, of course, only broad generalizations. Obviously, it would be entirely possible to disaggregate them further into a model that would be far more elaborate and detailed.

There is, admittedly, nothing definitive or magical about the number eight.

But, in my view, even if one regards these eight groupings merely as reference points, they nevertheless shed more light on the current dynamics of the global economy, and on its probable future directions, than does an essentially static bipolar model.

Let me briefly describe these eight economic clusters.

First of all, there are the newly industrializing countries: societies that are modernizing at a rate almost as rapid as Japan's has been over the past two decades. These are countries such as Korea, Brazil, Mexico, Malaysia, and others. They have dramatically expanded their share of the world trade, investment and output. They are evolving beyond the traditional "developing country" category, and do not fit easily into a classic "rich country -- poor country" stereotype.

Then there are the capital-surplus, oil-exporting countries of the Middle East. How should these countries be categorized? They are something quite new. They have embarked on gigantic domestic development programs, and yet still have had extensive funds available for international investment. Though their income has recently declined with the current softening in the price of oil, they remain a very substantial factor in the global economy.

Four additional distinct centers of high industrialization operate in the contemporary economic scene: Western Europe, North America, Japan, and Eastern Europe. Each has its own tempo, and each is changing.

The vast populous nations of Asia -- China, India, Indonesia, Bangladesh and Pakistan -- are another significant economic group. In the face of immense difficulties, they have achieved very substantial progress in agriculture. The combination of improved domestic policies, redoubled local efforts, mobilized savings, and sound investment has had remarkable success. India, for example, which suffered chronic shortages in the past, is now a net exporter of grain. Pakistan has achieved near self-sufficiency, and even Bangladesh, in spite of many obstacles, has been able to reduce food imports.

Finally, the eighth pole of economic activity I would underscore is Sub-Saharan Africa. It is, by far, the poorest part of the world economy, and hence it presents the greatest development challenge there is! In the decade of the 1970's, eighteen of the countries in the region actually suffered a decline in their already desperately low income per capita. And the present projections for the 1980s indicate virtually no growth in that income for the majority of the countries in the area.

But projections are not predictions, and it is not only possible -- but clearly imperative -- that through the intensified efforts of the countries themselves, combined with greater assistance from the international development community, the decline and stagnation of the past decade be reversed. That is one of the top priorities of The World Bank. The turn-around in Sub-Saharan Africa can be achieved. And it is very much in the interest of the entire world economy that it succeed.

It is in this environment of a complicated, multipolar world, that the leaders of the United States, France, Canada, Britain, Italy, the Federal Republic of Germany, and Japan will meet shortly in Versailles for the Economic Summit. Their agenda is going to be a heavy one.

These summits have, in the past, played an important role. They have promoted mutual cooperation in periods of stress when thorny economic and political problems threatened to undermine mutually beneficial relationships.

Out of these summits came the collective determination and political will to ensure greater currency policy coordination between leading monetary authorities, as well as the new multilateral trade liberalization agreements under the GATT. There have been meaningful joint actions, too, in the fields of energy and development assistance.

But perhaps the greatest value of these summits has been that they have given statesmen a chance to think about the real problems that others confront, and to ensure, as a consequence, that actions are not taken by one industrial power that seriously compromise the prospects of other nations.

The pressures throughout the industrial societies to resort to greater trade protectionism have, of course, been fierce in recent years. As unemployment has risen, protectionists have called upon governments to sharply curtail imports. But the summits have repeatedly urged caution in this matter. There has been recognition at high government levels in the industrial nations that economic protectionism is inescapably counter-productive.

For a time, perhaps, a few jobs are made more secure through raising tariff and non-tariff barriers, and by imposing quotas. But more expensive goods penalize consumers; fuel inflation; and end by eroding the job security of many. Further, to impose hasty trade restrictions is only to invite swift retaliation from one's trading partners. And once "beggar thy neighbor" policies become generalized, everyone is in trouble.

Trade battles, sparked by protectionism, can erode relationships between nations across the whole spectrum: from business to political to military affairs. Mindful of this, the leaders at the annual economic summits of the OECD industrial powers have, in the past, shown restraint in bowing to the winds of protectionism.

In a few days from now -- in Versailles -- these leaders will again have to face this issue. Unemployment in their nations is painfully high and the domestic pressures for short-term relief are mounting. Hardly a day goes by without there being a story in the papers relating a new call for trade restrictions. The drum-beat is getting ever more insistent.

Nor do these dangers apply exclusively to the trade relationships between North America, Western Europe and Japan. They threaten the progress of the developing countries as well.

Trade is clearly vital to all countries today. And what I want to stress here is that it is very much in your own vested interest, ladies and gentlemen, to support the progress in the developing countries.

I believe there is a real prospect that before the end of this decade, it will be clear to all that an era of immense business opportunities has opened in the developing world. Opportunities for all. Opportunities for better living standards for the peoples there. Opportunities for the business sectors in these countries. And opportunities for the corporations of industrial nations and for businessmen and businesswomen like yourselves.

The degree, however, to which the potential opportunities in these societies of the developing world are realized will depend in part on the policies the industrial nations adopt towards them. If the access of the developing countries to the markets of the industrial nations is restricted, they obviously cannot earn the foreign exchange necessary to pay for the imports they are anxious to purchase.

The simple fact is that trade protectionism must be resisted on every front, and I hope that at the Versailles summit the signal will go out once more that a world of genuinely liberal trading policies is in the interests of all.

There is also, of course, the issue of restrictions on international investments. These, too, are a cause for concern since there is, as yet, no existing framework, or set of guidelines, to ensure free and fair investment exchanges between all nations. There are some regional codes, and some codes for particular groups of nations. But in the overall investment arena there is no institution such as GATT that brings all the countries together.

And there is a real need! If the two-way flow of business activity between nations is to become a still greater spur to international prosperity, then there must be much more external investment -- and particularly in the developing countries.

World Bank projects around the globe routinely produce handsome rates of return. Indeed, we do not enter into a project anywhere, including in the very poorest countries, unless its estimated economic rate of return is at least 10 percent. Most projects exceed that, and some very considerably.

For the corporations in the industrial nations, there are genuine investment opportunities in the developing world. And as more of the corporations of the developing countries grow and become multinational, so for them, too, there should be rising investment opportunities here and elsewhere in the developed nations.

There are major advantages in direct investment, both for those who provide capital, and for those who accept it. Productive investment pays for its own amortization. And along with investment comes technology. In many cases, the only viable way of securing access to new technology is through encouraging investment by those who have produced it.

Now there is a danger that as the current economic strains continue, nations may become more inward-looking and less receptive to foreign investment. And it is possible that lenders may become overly narrow in their focus, and restrict private direct investment flows between countries.

Direct investment, when measured as a proportion of net financing flows to the developing world, has fallen over the last decade. And the bulk of what was provided went only to a few countries -- mostly to the middle-income developing countries.

Swift action today to develop an internationally acceptable set of investment principles would reverse these trends, and open the way for a healthier international economic environment.

Such guidelines, must, of course, be sensitive to the sovereign rights of nations, to different economic systems, and to priorities that differ from one country to another. They must ensure that at every point in the investment process there is a genuine fairness of treatment to all: fairness towards the investor, and fairness towards those with whom the investor works.

But if the global environment for commerce is to be strengthened, then more must be done today than merely resist the pressures for protectionism and investment isolationism. We must overcome, too, those short-term considerations that might, for example, demand budget cuts at every corner, irrespective of longer-term negative effects. There is no question in my mind, for example, that cuts in development assistance today are directly counter to the commercial and security interests of the donor nations.

In the matter of development assistance, just as in the matters of trade and investment, we have to keep the long-term perspective in focus.

For the developed nations to do more to assist the developing countries become better trading partners is obviously very much in the interest of all.

The United States, for example, has a huge stake in this matter. Thirty-eight percent of all U.S. exports now go to the developing world. Nor is the bulk of those exports going, as some imagine, to the OPEC countries alone. As important as the OPEC market is, the non-OPEC developing countries (excluding China) absorb 30 percent of total U.S. exports around the world.

Further, the United States now imports increasing amounts of its important raw materials from the developing countries: more than half of its rubber, tin, manganese, for example, plus very substantial quantities of its cobalt and tungsten and, of course, its petroleum.

So the plain fact is that the U.S. economy depends increasingly on the capacity of the developing countries both to buy its exports and to supply it with critical imports.

What this means is that the United States has a strong vested interest to assist the developing countries to achieve their high priority development objectives, and thus become even more vigorous and mutually beneficial trading partners.

In World Bank projects, the Bank's borrowers are obliged to follow rigorously fair and impartial rules of procurement, utilizing international competitive bidding. But the United States does very well in this vigorously competitive climate, and you will not be surprised to learn that companies from the State of Ohio rank high on the list of the U.S. record.

In the five-year period, 1976-80, Ohio firms received nearly $111 million in disbursements from procurement contracts stemming out of World Bank projects. Only four out of the 50 U.S. states received more.

The World Bank is a hard-headed, unsentimental, and conservatively managed financial institution, owned by 142 member governments. As a bank, it is unique. In its 36 years of operations, it has never suffered a default notwithstanding the fact that it does not reschedule loans. It operates on a one-to-one gearing ratio; that is, its outstanding loans cannot exceed its capital and reserves. Last year, it earned more than $600 million in profit.

But it is more than a conservative, successful bank. It is also the world's largest single development agency, supervising more than 1,600 projects in over 95 developing countries -- projects with a total worth of considerably more than $100 billion.

The International Development Association -- commonly referred to as IDA -- is The World Bank's affiliate that lends on concessional terms to the very poorest countries in the world. These are countries that need development assistance desperately, but are simply too poor to borrow on more conventional terms.

But creditworthiness aside, there is absolutely no difference in the tough demanding standards of IDA projects and the traditional World Bank projects. Both must have a high rate of economic return, and both must contribute to the priority development objectives of the country in question.

IDA was founded in 1960, largely at the initiative of the United States, which wanted to encourage broader burden-sharing of official development assistance among donor nations. That, too, has been very successful.

The U.S. share of the burden in IDA has diminished from 41 percent in 1960 to 27 percent in the current IDA replenishment.

There is, however, a serious problem confronting IDA today. Initially, the United States agreed internationally to contribute, as its fair share to the present replenishment, \$3.24 billion over a three-year period ending in June 1983. Each of the three annual U.S. tranches to IDA would amount to \$1.08 billion.

But in the first year, the U.S. provided only \$500 million: nearly \$600 million short. In the second year -- the current one -- the U.S. has provided only \$700 million: another \$400 million short. Today, two-thirds through the originally planned program, the U.S. has contributed just a fraction over a third of its total original commitment.

Now it is, of course, a time of budgetary restraint and constraint, and Congress is faced with the problem of dealing with many competing claims for limited federal funds.

But there are two important points worth reflecting on here.

The first is that IDA is not a give-away program! Neither is it a kind of global welfare agency, or an international exercise in bureaucratic philanthropy.

Quite the contrary! IDA is a tough-minded investment -- by the United States and 32 other countries -- in a more vigorous and more prosperous and more mutually beneficial world economy.

And the second point is that IDA makes a genuine contribution to greater global tranquility.

I believe there is much validity to the following assertion: that had there been broader economic progress in some of those developing countries, which are now in serious internal turmoil, they might well have been spared their present political upheavals.

The United States and other nations are providing military assistance, at immense cost, to an increasing number of nations today. Is it unreasonable to suggest that had there been greater economic assistance to these nations earlier, then the need for military assistance now would have been less, and the budget drain on the U.S. would have been reduced?

Doesn't history suggest that when developing societies are caught up in severe economic difficulties, and stagnate rather than progress, the prospects for revolution rise? And does it not illustrate that a critical element of resistance to violent political disorder in a society is the degree to which ordinary citizens have a sense of hope and belief in the prospects of a brighter future?

I am convinced that the prospects of winning friends, and keeping friends, are far greater when nations are at peace and have internal political stability, than when they are in the midst of civil wars and urgently pleading for massive foreign arms supplies.

But in the world as it is, you cannot give the peoples of the developing nations hope and confidence, and at the same time deny them the means to achieve more adequate economic progress for themselves. And one important approach to that is through multilateral economic development assistance.

Ten years from now how many developing nations will be in the midst of revolutions and internal political chaos, and rushing to foreign authorities in search of arms?

None of us can say. But I am convinced that the number will be smaller then than would otherwise have been the case, if over the next ten years the industrial nations support multilateral economic assistance programs that are of meaningful and realistic orders of magnitude.

Social and economic progress in the developing countries cannot, of course, in itself end all dissent and disagreement. But it will help promote, in the longer term, greater economic stability and social cohesion. And those are essential building blocks of increased global security.

* * *

Well, ladies and gentlemen, the deliberations at the summit meeting in Versailles will take place against the background of all these considerations -- as well as many others -- and, of course, there are no simple, instant, all-purpose solutions, ready at hand, that can clear up all these thorny complications in just a few days' time.

That is not what summits are for, and that is not what they can do.

What they are for -- and what they can do very well today -- is to help nations understand one another's problems better, and in particular, to help them sense the degree to which interdependence has become a fundamental fact in virtually every aspect of a nation's life.

Virtually no major domestic problem in any nation -- even of a superpower -- can any longer be fully solved in isolation from the rest of the world.

Like it or not, we are all linked together in increasingly interactive ways -- though these ways are often not very immediately apparent!

But I need not tell you trade experts that.

You have helped make it all happen.

In 1970, only one-eighth of the total world output was traded internationally. In ten short years, that share has leaped to nearly one-quarter.

It is going to keep leaping in the years ahead -- probably in ways which even the most wildly imaginative cannot now visualize.

We in the World Bank not only welcome that. We are going to do everything we can to help all 142 of our member countries to play that plus-sum game.

A game in which everyone can win. And no one need lose!

Thank you very much.

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