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THE DYNAMICS OF GLOBAL DEVELOPMENT IN THE 1980s

Remarks

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"THE DYNAMICS OF GLOBAL DEVELOPMENT IN THE 1980s"

Thank you, _________________, and good afternoon everyone.

I am delighted to have this opportunity to speak to you about what we are up to in the World Bank, and about the outlook for global development in the decade of the 1980s.

I feel very much at home here -- and for many reasons. But particularly so because of my long association with a man who did so much to help build this World Affairs Council into the vigorous and stimulating organization that it is: Scudder Mersman, Jr.

I don't have to tell you what an energetic and marvelous citizen of the world Scudder was. Born in remote Tahiti of parents in the U.S. diplomatic service, Scudder in a way spent his whole life helping to shrink the globe down into more comprehensible and cooperative dimensions.

I was fortunate enough to be his colleague in Bank of America for nearly 30 years. His career was characterized by his broad grasp of the growing international interdependence of our era. He was a man with a truly global vision, and with the imagination and drive to pursue it.

He was a model for us all.

And I repeat: I'm honored and pleased to be invited here to this lively Council in which he served two terms as President, and of which he was so genuinely proud.

I have myself just returned from a two-week trip to Asia, and while in Tokyo I spoke to the International Forum of the Yomiuri International Economic Society on a subject that I know you here in the Council have been quite interested in: the whole complex of issues that fall under the so-called "North-South" debate.

I have seen the impressive report that the study group cosponsored by your Council and by the Society for International Development completed last June. And because it touches on some of the same general questions that I dealt with in Tokyo, I thought I might briefly sketch out here this afternoon some of my own thinking on this important topic -- to serve as a basis for your questions and comments.

Let me start by saying quite candidly that I myself believe that a good deal of the trouble that the international community has had over the last few years in various official forums in trying to get agreement on what ought to be done about the global economy is due to the fact that virtually all of the parties to the dispute tend to get bogged down in oversimplifications.

That, of course, is very easy to do. We are all subject to that temptation. The human mind likes its perceptions of reality served up in simple and uncomplicated concepts. And my point is certainly not to find fault with anyone over this.

But the truth is that the global economy today is a very complex entity. And that is why I believe that the old "North-South" economic model of the 1960s and '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.

I want to stress again that my purpose is not to assign blame in any of this. What I am merely saying is that the "North-South" 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 that it helps very much to apply dogma and ideology to global economic problems. What we all really need are pragmatic economic strategies that result in plus-sum games in which all the parties can benefit, and no one really has to lose.

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

Let me enumerate just a few of the components of that dynamism.

First of all, there are a number of countries today 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 broad variety 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 simply do not fit well 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" pattern? 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 financial centers of their own. They are neither "North" nor "South". They are something quite new. And they are obviously a dynamic influence on the world economy.

Still a third element in the dynamism of the contemporary economic scene is the enormous expansion in world trade itself. 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 this 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 that 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 in this period the 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 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 others of growing importance elsewhere which indeed comprise integral parts of what now amounts to an around-the-clock, 24-hour-a-day global money trading system.

And 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 about \$3 billion at the start of the decade to \$28 billion at the end.

And fifth and finally, there has been the continued emergence onto the global economic stage of the centrally planned economies. China has moved out of the wings. And Hungary, Poland, and Rumania have all become more 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 to continue to think of the world exclusively in bipolar terms will not, in my view, contribute to our basic understanding of the complicated and interrelated problems that in fact affect the global economy.

To solve these problems, all of us obviously need to try to understand them as comprehensively as we can. And to do that, we have to try to disentangle them, and see how they relate to one another.

Further, 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 of 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 economic environment.

Now, 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, I think, 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 of the Middle East. Then there are the newly industrializing countries -- some 20 of them -- that I have mentioned. Add to this, the great populous countries of Asia: China, India, Indonesia, Bangladesh, and Pakistan. And finally, there are the severely poverty-stricken countries of Sub-Saharan Africa.

The populous nations of non-industrialized Asia represent a success story that has not yet received the full attention it deserves. It is their breakthrough in agriculture.

Instead of grappling with chronic shortages, many of these societies are now approaching self-sufficiency in food grains, and some may even become grain exporters. There is, of course, still poverty in populous Asia, and the population problem has emphatically not disappeared. But fertility rates have begun to decline, and hence population growth rates will be gradually coming down.

But it is Sub-Saharan Africa that is by far the poorest part of the world economy. During the 1970s 18 countries there actually suffered a decline in income per capita. And present projections indicate virtually no growth in income per capita in the current decade for the majority of the countries in the region. And hence it is in this region of the globe that the development community today faces perhaps its greatest challenge.

There is, then, 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 indicated eight such centers, it is quite possible to disaggregate them even further, and to formulate much more complicated models.

There is, in short, nothing sacrosanct about the number eight. The central point is that the world's economic activity is now truly global in nature, and that individual national economies are already 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.

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: complicated ganglia of interdependent relationships, and a very dynamic environment in which they are all interacting. And what we need to do is try to sharpen our vision of all this complication -- not blur it.

The world trade in manufactured goods, the flow of private-sector financial resources, the movement of workers across international frontiers --and 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 a static -- sense. A qualitatively different world will require qualitatively different instruments of economic management.

And 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.

But as globally owned and operated as it is, 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.

The World Bank's basic objective in any developing country is always 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.

The World Bank in the 1980s is going to have to continue to be prudent and conservative, 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 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 in that connection, let me add a word or two about IDA -- the International Development Association -- which is, as you know, a World Bank affiliate, and is today the world's principal source of effective, high-priority, tough-minded concessional development assistance.

While IDA is a vital part of the World Bank, and was created to assist its member countries which do not yet have adequate creditworthiness to borrow on more conventional terms, it remains an independent financial entity, separate from the original World Bank institution: the IBRD, the International Bank for Reconstruction and Development, which does lend at near market terms.

IDA is fully responsible for the costs and risks of its own operations, but there is absolutely no difference in standards between an IDA project and an IBRD project.

The same professional staff in the World Bank negotiates and administers IDA projects; the same high rates of economic return are insisted upon; the same supervision and international competitive bidding for procurement are rigorously applied; and the same full government guarantees of repayment are required.

For an IDA project to be approved at all, it must have an estimated rate of economic return of at least 10% in real terms.

So IDA is not a give-away program, or a welfare agency, or a philanthropic society, or a soft-hearted and soft-headed "soft-loan window." There is nothing soft about IDA at all. It is a hard, tough, realistic development agency doing a hard, tough, realistic job. And doing it well.

Now, the opening discussions for the seventh replenishment of IDA are scheduled to get underway this year, and no one pretends that they are going to be very easy. We are in an era of budgetary restraints in most of the donor countries, and while there is absolutely no question that IDA has been an immensely successful and worthwhile investment over the past 20 years, the political will to make adequate concessional development assistance available to the poorest developing countries is losing ground in some quarters.

IDA itself was, of course, originally largely an American idea. It was launched in a conservative Republican administration in 1960, and its purpose was in part to broaden the burden-sharing of the OECD countries in making ODA -- Official Development Assistance -- available to very poor developing countries that needed help desperately, but were simply not creditworthy for funds on market or IBRD terms.

And the success of IDA is that it did precisely what it set out to do. It did broaden the burden-sharing among the donor countries, and it did assist many countries to graduate from low-income to middle-income economies -- among them Korea, the Philippines, Thailand, the Ivory Coast, and some 15 similar cases. Today those countries are vigorous and valuable trading partners with the developing countries, and IDA has clearly turned out to be a wise and effective investment.

In the meantime, the United States -- whose ODA in 1949, at the beginning of the Marshall Plan, had amounted to 2.79% of its GNP, and to .53% in 1960 in the year IDA was founded -- now devotes only about .25% of its GNP to ODA, which is far below the OECD's Development Assistance Committee member-country average of .37%, and is, in fact, the lowest percentage of any major industrial OECD country, save Italy.

And the U.S. share of the burden in IDA has diminished from 41% in 1960, to 27% in the current IDA VI.

IDA, however, remains the world's most important single source of concessional assistance for the poorest of the poor developing countries, and I do not believe the United States will turn its back on those hundreds of millions of individuals who only want a chance to improve their own economic performance.

But it is true that IDA has been having difficulties in the Congress -- and, in my view, it is having difficulties for the wrong reason.

If IDA were just a kind of international entitlement program -- just a relic of a more prosperous economic period in the past when the United States felt more generous -- then I could understand that in a time of budgetary pressures it might make good economic sense to cut it back, and pare it down, and string it out in a severely reduced form.

But IDA is not an international entitlement program. And the basic issue is not generosity. On the contrary, IDA is a hard-headed investment in international trade, and economic growth, and greater global stability and cohesion, and the U.S. ought to live up to the international agreements it has made with respect to IDA because it is in its own best self-interest to do so.

And that is true of every donor country that contributes to IDA. And there are 33 countries which do.

I am dedicated to IDA, not simply because I am the President of the World Bank, but because I have spent my entire working life in the world of investment, and I know what sound, high-priority, carefully managed investment can do to transform an economy.

And there are many low-income economies in the developing world today that can transform themselves faster than either they or others may think possible.

That has happened many times in the last 20 years -- confounding everyone's expectations. And it is going to happen again in the next 20 years.

Allow me to be candid with you about the situation today in the poorest nations. We are all aware of the various economic uncertainties in the world today: interest rates, exchange rates, economic growth rates -- all of these are posing difficulties. But it is, of course, the poorest nations that are being hit the hardest of all.

Nor is the World Bank itself immune from these difficulties. Economic circumstances have forced us to take very painful decisions. We have had to impose special fees on both IDA and IBRD borrowers in order to ensure our own continued financial strength. And because of the shortfall in IDA funding, we have had to cut drastically the level of IDA commitments in this current fiscal year: from an originally planned level of some $4.1 billion to about $2.6 billion. This is a shortfall of $1.5 billion, and most of it affects the poor nations of South Asia. Sub-Saharan Africa will also feel its effects.

In order to make up for this shortfall to some extent we have increased our IBRD lending program for this year by about 8 percent; that is, by some $800 million. But this, of course, is very expensive money for the poor countries, and hence the flow of concessional funds must continue at meaningful and realistic levels.

Concessional funds are, of course, the scarcest and most valuable funds that anyone can get today. That is why they must be used with the greatest of care, and only for the highest of development priorities.

There is no question that IDA has made an important contribution to global economic development. It has been in existence for 20 years, and it is time to look in close detail at its record, to determine its full impact, to guage what lessons we can learn for the future from its experience.

To do this we are going to undertake a retrospective study of IDA. Such a study should help to increase a broader understanding of IDA's role, and it may contribute significantly to discussions on its future structure and funding.

In all of our approaches at the Bank, whether they touch upon the IBRD, the IDA, or on the IFC -- the International Finance Corporation, our principal window to the private sector -- we are determined to be flexible, fair, and open-minded. As the global economic environment changes, we of course will have to change as well.

We look forward to the time when our developing member countries have reached that stage of economic progress that they can graduate from IDA, and borrow from IBRD on near market terms. We look forward, too, to the time when these same countries have reached such sound levels of development that they no longer need borrow from the World Bank, and can be serviced by the private capital markets.

In short, we seek a continuing relationship with our developing member countries at all the various stages of their development.

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And so, ladies and gentlemen, the World Bank has its work cut out for it over the next decade.

The multipolar world in which it operates will evolve and grow only more interrelated in the years ahead, and the Bank must evolve and grow with it.

Indeed, the most significant single fact about the World Bank, in my view, is that over its 36 years of operations it has turned out to be a kind of prototype institution for our particular era of history.

And what characterizes our era? Interdependence. Noisy, argumentative, complicated -- but ultimately inescapable interdependence.

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

That role is critically important in today's world -- and is likely to become even more so in tomorrow's.

For the fact of interdependence today is far in advance of its public perception. And that is why governments, and organizations, and individuals have difficulty in designing policies that fully reflect their own vested interests. Those interests -- more than ever before -- are now inextricably related to the vested interests of others around the globe. And it is, therefore, only in global and pragmatic plus-sum games that the interests of all can more reasonably, and more equitably -- and above all, more peacefully -- be met.

Thank you very much, ladies and gentlemen. And now, I would be happy to take your questions.

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