PARTNERSHIP FOR DEVELOPMENT

Remarks

By

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Good afternoon, ladies and gentlemen. Thank you, Dick, for your generous words.

I've learned to appreciate such praise as one enjoys the smoke of a good cigar -- to savor it, but not to swallow it.

I am honored to be this year's recipient of the Robert Dollar Memorial Award for the advancement of international trade and investment.

I am particularly honored because the award comes from the National Foreign Trade Council. The Council is the oldest and largest organization working for the expansion of American foreign trade and investment. It has helped to foster the expansion of international trade and investment over the last generation, and this, in turn, has powerfully contributed to economic growth worldwide. Under the leadership of Dick Roberts, the Council has become even more active and articulate in addressing questions of public policy.

My 31 years of experience at Bank of America has confirmed for me that international trade and investment is good business. The World Bank, where I'm now starting my second career, is committed by its very Articles of Agreement to the pursuit of prosperity through international trade and investment.

This afternoon I'd like to focus on our economic relations with developing countries. In my opinion, closer economic cooperation with Third World countries makes nothing but good economic sense for the United States and for all industrialized nations.

First, I'll outline several reasons why it's to the advantage of all of us that developing countries prosper. Second, I'll discuss two areas for action to support Third World development -- international trade and investment.

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It was remarkable, I thought, that top-level representatives of 22 governments -- including eight from the developed world -- gathered in Cancun, Mexico, a few days ago to discuss issues that especially concern the Third World. The fact that they agreed to come signals an increasing awareness of the importance of the developing countries to the rest of the world.

Economically, the developing countries are important to the industrial countries in three ways: as a big and growing market, as efficient contributors to world production, and as suppliers of key natural resources.

Over the last five years U.S. exports to the Third World have tripled and now amount to 36% of our total exports. That's more than this country exports to Western Europe, Eastern Europe, China and the Soviet Union combined.

Production for export to the developing countries provides one out of every seven manufacturing jobs. One out of every four acres of U.S. farmland is given over to production for export to the developing countries.

And the markets of the Third World are not only big. They are growing buoyantly.

Over the last two decades, the growth rate of total output has been consistently higher in the developing countries than in the developed countries. But unfortunately, because population growth in the Third World far outstrips that in the developed world, the average rate of economic growth in per capita terms has been only roughly the same in both sectors.

In 1980, although the average growth rate of total output among the industrialized countries dropped to an estimated 1.3%, the developing regions of the world enjoyed an average growth rate of 4.6%.

Our global objective clearly should be to accelerate economic growth in non-inflationary ways -- and to particularly get it going in those parts of the developing world where there has been little or no growth in the past decade. By so doing the industrialized countries can sell even more of their goods and services abroad. That means better prospects and more jobs in the United States, Canada, Europe, and Japan ... indeed for all countries in the Global Village.

A recent study projects that manufactured exports from industrial countries to developing countries will increase from 47% of their total manufactured exports in 1978 to 55% in 1990. According to this scenario, exports to the developing countries would represent 58% of the increase in manufactured exports.

The developing countries contribute to the economic health of the industrialized countries not only as markets, but also -- increasingly -- as tough competitors.

People don't usually think of competition as "help." But as business executives you know that competition makes us better off.

Protection from international competition is expensive to consumers.

It has been estimated, for example, that U.S. consumers pay $80,000 a year for each textile and apparel job protected by the Multi-Fibre Agreement. They pay $114,000 a year for each job in the U.S. footwear industry protected by orderly marketing arrangements with certain developing countries in Asia. And the Trigger Price Mechanism costs U.S. steel users about $6 billion a year.

I don't want to leave the impression that industries from developing countries are capturing large shares of the markets of the developed countries. On the contrary, sales from the developing countries account for less than 3% of the sales of manufactured goods in the U.S. and in other industrialized countries.

But because of their competition, U.S. entrepreneurs are more likely to put their energies and investments into industries where there is a comparative advantage.

As more goods are imported from the developing countries, we can export more manufactures and services to them. New jobs are created, usually in more efficient industries.

International trade is among the most effective supply-side reforms. It puts a brake on rising prices and, at the same time, makes for a more productive economy and increased economic welfare.

So the developing countries are important as producers as well as consumers. But they are also important as major suppliers of natural resources.

The United States now depends on developing countries for two-fifths of its oil requirements and almost a third of its raw materials other than oil. It gets more than two-thirds of its bauxite, tin, and natural rubber from developing countries, as well as substantial proportions of certain strategic materials.

Continued, reliable trade in these resources may well depend on political and social stability -- and stability, in turn, depends on an economic order which is perceived as "equitable and full of promise."

So, then -- large and buoyant markets, efficient production, supplies of natural resources -- these aspects of Third World development contribute directly to the economic well-being of the United States and of the entire world.

They are contributions we can't afford to lose in these difficult times.

But beyond such self-centered logic, there are also cogent moral and security arguments for supporting development in Third World countries, especially among the poorest.

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If, then, we want to support the continuing development of the Third World -- if we are convinced that its prosperity is vital to our own interests -- we can act in both of the two major areas of international commerce: trade and finance.

As you all know, international trade has burgeoned over the last generation. Even over the last decade, international trade has grown from one eighth to one fourth of the world's total economic output.

Growth in the exports of developing countries over the 1970s provided them with about $270 billion in extra purchasing power.

As a point of comparison, that's almost 25 times the $11 billion they received in increased foreign aid from the industrial countries over the same period.

These gains in trade were concentrated among a few countries. As a commercial banker while living on the Pacific Rim and long interested in the Pacific Basin, I've watched a group of East Asian countries achieve unprecedented rates of economic growth, primarily because of their success in international trade. Parts of Latin America and countries such as the Ivory Coast and Tunisia have also garnered exceptional benefits from international trade.

On the other hand, the 36 developing countries with per capita incomes below the equivalent of $370 per annum gained only $4 billion of the $270 billion in extra purchasing power which came to the developing countries from trade. I believe it's important to note that these 36 countries include more than half of the world's population.

The World Bank has always encouraged its borrowing countries to take advantage of the opportunities for international trade. And, in view of the world's recent development experience, we're now putting even more emphasis on trade.

The Bank is able to encourage trade in a number of ways. First, the Bank finances primarily the foreign exchange requirements of development projects and normally insists on international competitive bidding.

Second, the Bank's investments help build the base -- in infrastructure and human resources -- which will allow the lower-income developing countries of today to prosper and to become more significant trading partners in the world economy in the years ahead.

In the third place, we encourage investment according to a country's comparative advantage. We are constantly raising trade and tariff issues in our policy dialogue with borrowing countries. How much we lend to a particular country depends, in part, on the extent to which its economic policies and practices are actually supportive of and contribute to development.

Let me give you a current example of the prominence of trade in our policy dialogue with borrowing governments.

The World Bank has recently completed a major piece of research on sub-Saharan Africa, where economic activity has actually retrogressed during the past decade! Twenty-one of the 33 poorest of the poor nations in the world are located in sub-Saharan Africa.

The study concluded that many governments of Africa have contributed to their economic malaise by failing to establish appropriate economic policies which are conducive to economic growth and development, and by maintaining policies that actually discourage international trade.

Even with necessary policy changes in place, Africa will need increased financial help from the rest of the world. But just "throwing money" at

the problem will not return sub-Saharan Africa to a pattern of growth. It will take understanding from all of us who are able and willing to help. It will also require many structural adjustments, over time, in the individual economies of those countries involved.

Whatever policies the developing countries adopt, the industrialized countries will still dominate international trade. It is their actions and policies which will largely determine whether the world economy stays open or not.

In an environment of slow economic growth, high rates of inflation and interest, and rising unemployment throughout much of the world, the temptation to "circle our wagons" and resort to economic protectionism is prevalent everywhere.

Even though imports from the developing countries command a tiny share of the market for manufactured goods, many of the pleas for protectionism are focused on the products in which developing countries have done best -- such as textiles, clothing, leather goods, and electrical equipment.

Very clearly we must resist these temptations, for in the final analysis no one can win in that retrogressive game. Protectionism practiced by one nation tends to invite protectionistic counter-measures from other nations. There can be no long-run winners! Everyone must lose!

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Besides trade in goods and services, the other major aspect of international commerce is finance.

Private lending and investment account for about 60% of the international financing that developing countries receive. And, because of restricted government budgets all over the world, private sources are becoming even more important to the developing countries.

One role I see for the World Bank is to help, in various ways, to attract more private resources into Third World development, thereby reducing the shortfall that may come from curtailed government multilateral and bilateral assistance.

The most obvious way this can be done is by increasing private co-financing of World Bank projects.

Over the five fiscal years from 1977 to 1981, the volume of co-financing for World Bank projects has averaged $3.7 billion per annum. Nearly three-fourths of that has come from other official sources (including bilateral aid from OPEC governments). About $1 billion a year has come from a total of 190 private commercial banks.

Official co-financing has recently taken a downturn, but private co-financing continues to grow. In 1981, the World Bank attracted $1.7 billion in private co-financing. For the very first time in our experience, the private sector became the largest single source of co-financing.

Our aim will be that, for each dollar we invest, more dollars than before will be attracted from other sources -- especially from the private sector. We simply must exert all efforts in that regard to insure continued and accelerated economic growth in the period ahead.

In asking the question, "What can we do to make direct foreign investment in developing countries more appealing to the private sector?" several thoughts come to mind.

One is a multilateral investment insurance scheme that would offer protection against political risk. There are several national programs offering this protection, but there is no present way for these individual national agencies to obtain co-insurance or re-insurance. The time just might be right to put this long-discussed idea into practice.

Recently, we've expressed support for setting up a global framework of guidelines for international investment. Several regional codes governing investment have been developed in recent years. None of these, however, is global in character. The guidelines that exist for international trade and tariffs have benefited everybody. I believe that we should press for a global code that would similarly facilitate international investment.

Another important area in which the World Bank can attract more private investment to the developing countries is in the energy sector.

It is a fact that the private sector has not been able to fully realize the energy potential of the developing countries.

Ninety percent of the world's exploratory drilling for oil to date has been limited to the industrialized countries. Yet, despite intense new exploration in the industrial countries in the 1970s, there has been little increase in exploratory drilling in the oil-importing developing countries. The level of preliminary geophysical work in these countries has actually dropped in the last decade.

A survey commissioned several years ago found that only 7 of 23 developing countries with high or very high prospects for petroleum production had been adequately explored.

We think that the World Bank can encourage more private investment in energy. The Bank and the International Finance Corporation (an affiliate of the Bank that works almost entirely with the private sector) are increasing their participation in energy development, thereby hopefully adding to the confidence of potential private investors and, even more, to the confidence of the governments involved.

A survey of 70 developing countries concluded that 54 governments needed better data or improved capacity to evaluate existing data about potential energy resources. If a government is not sure how good the country's prospects are, it may be too tough in negotiations -- out of fear of not being tough enough!

The same survey found that 50 governments needed training and institution-building to develop energy policy and legislation.

Needless to say, I'm from a private sector background. I've long had a love affair with the private sector. But in energy development in Third World countries, as in many other areas, the private sector needs some help. And we think that the World Bank can play an increasingly important role in providing some of that help.

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In conclusion, ladies and gentlemen, it is very much in the interest of the United States and other industrialized countries to support the developing countries through stronger ties of trade and finance.

As competitive, unsentimental, and -- above all, successful -- business executives, you know the value of positive sum games:

games in which everyone wins something they need and want, and the gains of one party are not merely the mirror image of the losses of the other party. You know, and I know, that deals in which everyone profits are the best and most sustainable business deals of all. And needless to add, they are the only kind of relationships that have any chance of real success between nations themselves.

That, after all, is what partnership is ultimately all about -- whether its a personal partnership ... or a trade partnership ... or a global partnership.

No one need lose. Everyone can gain. And things can get better all around.

Certainly that's the kind of trade partnership the United States clearly wants with the world.

And that's the kind of international development partnership the World Bank -- through its 141 member nations -- is trying to help bring about.

We in the Bank need all the support we can get. And I am gratefully counting on yours!

Thank you very much.