Remarks

prepared for delivery by

A. W. Clausen, President

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Thank you, and good afternoon, everyone.

It's a pleasure to join Ed (Littlefield) in welcoming a group that consitutues such a positive force for world progress and prosperity.

The transnational corporation has been described as the ultimate expression of global interdependence -- and for good reason.

No other entity is better equipped to bring together resources, expertise, capital, and markets on a global basis in such an efficient manner.

And few innovations of the Twentieth Century have had such a pronounced effect on the global economy.

Transnational enterprises today account for about one-third of the world's gross product -- and their share keeps increasing. Over the past 20 years they've been growing at twice the average rate of advance for industrialized countries, and at almost double the rate of increase of total world trade.

Now, some critics see a threat in this phenomenal growth; to them it smacks of a dangerous concentration of power. But I don't share that view. On the contrary, I see the transnational corporation as an important ally of creative and enterprising people everywhere who believe it's pragmatically possible to build a better and more productive global society that can enhance the living standards of everyone.

And that's what I'd like to discuss with you today -- focusing my remarks on some of the major economic challenges confronting our interdependent world, and the role transnationals can play in helping to overcome them.

Any discussion of the global economy would be incomplete without considering the effects of the rampant and stubborn inflation that has characterized the past dozen years. The index of international prices rose less than one percent a year between 1956 and 1968. But in the past twelve years, these same prices have risen at an average annual rate of more than 11 percent. This persistent phenomenon began before the rise in the prices of oil and other primary commodities, and is only partly attributable to them. But galloping world inflation has dealt severe blows to business confidence, curtailed global economic expansion, and compounded balance of payments problems in many countries.

The continual price hikes acted like dams in the path of fish trying to swim upstream. Each major increase impeded the forward progress of the global economy for a time. And though it managed to rise to the challenge and get moving again, its advancement has been delayed considerably. Nor does it look as if the economy will regain its former momentum as long as inflation continues at current rates, investment lags, and governments pursue restrictive fiscal and monetary polices aimed at restoring their economic equilibrium.

A disturbing corollary to this state of affairs is the drift toward economic isolationism in many parts of the world. This has been taking two forms, neither of them conducive to long-term growth.

First, there has been a proliferation of nontariff trade barriers. Many countries have found it impossible to resist protectionist pressures aimed at shielding home industries from foreign competition or at boosting exports through subsidies and other tactics. This creates a situation in which nobody wins, least of all transnational corporations that depend on free trade flows.

Second, as some industrial nations increasingly turn their attention to internal affairs, they appear to be less inclined to increase -- or in some cases even to maintain -- their modest efforts to help the developing countries help themselves.

These governments simply have not found it expedient to expand foreign assistance while restricting domestic spending. This can have serious long-term economic consequences for developing countries -- particularly for the poorest among them -- and ultimately for all of us.

Closely akin to economic isolationism is yet another potential threat of major proportions: the risk of interruptions in the supply of raw materials vital to industry.

It would be an oversimplification, of course, to draw an exact parallel between oil and all other natural resources. Unlike oil, the world's other principal mineral reserves -- according to most estimates -- appear more than adequate to meet projected needs far into the future. The concentration, however, of some resources in a handful of countries raises the possibility that crippling shortages could arise if key sources of supply were cut off -- possibly as a result of international conflict or geopolitical power struggles.

Let me cite a few examples:

o Three-fourths of the known reserves of iron ore are located in only five countries -- Australia, Brazil, Canada, India, and the Soviet Union.

o Nearly half the reserves of copper are in six countries -- Canada, Chile, Peru, the Soviet Union, the United States, and Zambia.

o Seven countries -- most of them developing countries -- account for three-fourths of the world's bauxite.

o Finally, of 15 minerals commonly used in industry, over three-fourths of the world's known reserves are concentrated in each case in no more than five countries.

Sluggish growth, worldwide inflation, growing protectionism, insufficient capital flows to developing countries, uncertainty over access to vital resources ... this entire list of complicated issues has one characteristic in common. These are all global concerns, and they all call for global action. They're beyond the reach of any single country or organization, however powerful and well-intentioned it might be.

Shortly before his death in 1975, Arnold Toynbee said most of the economic troubles of the world could be attributed to what he called, quote: "an increasing misfit between the fact of global economic life and the political organization of the world in 140 local sovereign states," unquote.

This "misfit," to use Toynbee's term, goes a long way toward explaining the difficulty governments encounter when they try to mend snags in their own domestic economic fabric. But public officials are constrained by another factor as well. Few governments have the widespread and patient public support that would permit them to pursue unpopular policies for very long, even though those policies might be essential to the nation's long-term financial health.

When a corporation enters a new market, it often doesn't expect to show a profit on those operations for several years. Massive development projects may require a decade or more to begin paying off. Elected officials, on the other hand, frequently are expected to produce spectacular results in a much shorter time span.

The transnational corporation operates under its own set of limitations, of course. For example, more than 60 percent of the medium- and long-term capital inflow to developing countries last year consisted of private loans and foreign direct investment. Yet, most of this capital went to middle-income countries rather than those at the lowest tier of economic development -- the low-income countries that lack sufficient resources to borrow commercially or attract adequate foreign investment.

Another constraint on transnational investment in developing countries is the understandable concern a host country may have over the potential impact of foreign investment and influence. Lately, there have been signs of greater receptivity to foreign investment on the part of some countries that once feared it.

Transnationals, on the other hand, are demonstrating more flexibility in dealing with host countries. In some cases, for example, they haven't pressed for majority ownership of subsidiaries as aggressively as in the past.

But no doubt transnational corporations will continue to inspire mistrust and fear as long as three common misperceptions persist. Let's examine them for a moment.

Misconception number one holds that transnationals do little to foster their host countries' economic development.

A recent study by an international consulting firm pointedly refutes this contention. It indicates:

o First, that transnationals generally increase exports at a faster pace than domestic companies;

o Second, that they spend a larger percentage of their sales dollars on research and development;

o And third, that they reinvest a higher percentage of their profits.

Misconception number two is: If you've seen one transnational, you've seen them all.

Well, that just isn't so. As illustrated by the organizations represented here, transnationals come in many different shapes, sizes, and colors: from state and parastatal organizations to private corporations, and from heavy mining companies to manufacturers of light consumer goods.

Misconception number three is: The word "transnational" is virtually synonymous with the word "American."

Well, that isn't true either. The fact is that the ranks of transnationals have broadened considerably since the 1960s, when -- "the American challenge" was becoming a major concern in some quarters.

In 1963, two-thirds of the world's largest companies were based in the United States. Now fewer than one-half are. And if you run down the list of the world's 500 largest corporations, you'll find their headquarters are dispersed among 35 countries, including several from the developing world.

Now, I said earlier that I consider you, as leaders of some of the world's most successful enterprises, important allies in the effort to build a more prosperous and equitable global society.

And certainly one of the most significant contributions you can make is, quite simply, to keep on doing what you do best; that is, meeting the demands of your markets by combining, in optimal fashion, the essential components of production -- resources, labor, and capital.

You may have seen this mandate expressed more succinctly by a fleet of San Francisco cement trucks that bear the motto: "Find a need and fill it." Your success suggests that you've been doing just that.

But in the process of serving your markets, you also have a unique opportunity to build bridges of understanding -- as well as of concrete and steel; and to sow the seeds of interdependence -- rather than those of confrontation; and most of all, to help provide the peoples of many developing societies with the jobs, and skills, and increased income that can improve the quality of their own lives.

I don't mean to suggest that transnationals should trespass on the proper preserves of the public sector. Some activities certainly belong within the purview of governments. And others can best be carried out under the aegis of multilateral institutions.

Nevertheless, I'm convinced that there are many areas where the interests of all these various parties overlap, and where the synergism of cooperation would yield a total effect considerably greater than the sum of all our independent and isolated efforts.

Perhaps there's a lesson for us all in a rather embarrassing episode from the career of a distinguished symphony conductor. He was directing the performance of an overture that was supposed to culminate in a dramatic trumpet flourish when he noted, to his chagrin, that the all-important trumpet player was nowhere to be seen.

He had no other recourse but to end the performance without the accustomed fanfare. Later, it became clear that the trumpeter was absent through no fault of his own. He and his trumpet had been detained at the stage door before he could take his place in the orchestra by an overzealous guard, who insisted: "You can't play that thing here. There's a concert going on."

Well, I'd like to leave you with this one thought: There is a concert in progress on the global economic stage, and while everyone may not recognize it, your instrument is one of the most important.

The world desperately needs to make better music together. And we at the World Bank are counting on you -- as well as on all the other members of the orchestra -- to help bring exactly that about.

Thank you very much