

The World Bank
Speech

Some Remarks on Trade and Protectionism

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The role of the Bank is to make high priority productive loans to less developed countries with a view to improving their standard of living and facilitating international trade. Our job is to help in the process of assisting countries in their efforts to become more productive -- both through an economic policy dialogue and a transfer of financial resources. I would like this afternoon to share with you one observer's views about the motivations and likely response of the developing countries to the lessons they have learned and the world about them.

I supposed we could sit here and perhaps comment on how to make more dynamic "capitalism" in the United States, how to improve our trade position. That could be useful. We could talk about things like the need for protectionism and subsidies in the United States, unfair trade practices, dumping, the exchange rate, and how the world "should" be structured to make our lives easier and less competitive. I would simply ask first, why is the world so competitive, and second, why don't the industrialized countries just put things back the way they used to be. What are the factors at play which prevent reasonable, intelligent, decent people apparently think should be done -- but aren't being done. Why aren't protections put in place? Why don't they work? How come costs are so low and people work so hard in developing countries? I would like to share with you some reality testimony.

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For the poorest 600 million people in the world, there is one doctor for every 10,000 people. In the United States there is one for every 700. Seventy per cent of the populations of the poorest countries of the world do not have access to water that they can drink. Infant mortality up to the age of two in the populations of the poorest half billion people in the world is 40 times as greater as that in Sweden. In the 1970s, the incremental yearly per capita increase of GNP in the United States has been equal to the entire per capita income of the poorest countries. The number of people coming into the labor force each year in India, Bangladesh, and Pakistan each year is equal to the entire labor force of Western Europe. There are a dozen countries in the world whose populations are 90 per cent illiterate. The caloric intake of the poorest billion people in the world is about half of the caloric intake of those of us in this room.

The relevance of the data is that the have-nots under such circumstances are likely to be quite competitive. We can talk about protectionism, free trade, dumping, and high interest rates; I suspect, however, that societies under the pressures of finding a modest income for survival will work hard and will take less and consume less. The problem, perhaps, is in the nature of where they are and where they would like to be. They know it is different elsewhere. They know by radio; they know by watching World Cup Soccer matches. They know by tourists. They know by satellite communication. They may not be formally educated, but they are not without wisdom or drive, and they are distressed and concerned. They have rising expectations. Their literacy is increasing. They are politicized and aware. They know that they can even

exercise power from time to time -- both because of their geo-political positions and populations, and also because they have zinc and copper and oil and rubber and tin and coffee and cocoa -- and we do not. They understand their potential to exert change; they know that change can be implemented both in political terms vis-a-vis major world power groups or to a lesser extent by cartels. But mostly, aside from politics, aside from cartels, they are prepared to work, and they work very hard in Korea and the Phillipines and Singapore, Malaysia, China and Indonesia and throughout Latin America. And they ship a lot of goods. And they produce a lot of high quality goods and services.

We can pretend that some kind of government subsidy makes them competitive. That's not the reason in the majority of cases. I would suggest that need creates both the commitment and the incentives to build ships and steel plants. Admittedly, many countries control and carefully allocate, as perhaps some industrial democracies cannot and should not do, the way savings are used and resources allocated. And, perhaps, most important, given the fragility of their political systems, national leaders know they cannot stay in power with a degradation of the human spirit and a wasting of human capacity in their country. These societies simply will "do without" to an extent that few of us in this room are prepared to accept. They will slowly educate their citizens; they will provide health care and build roads, and bridges and dams, and an infrastructure which begins to provide for a better lifestyle.

The amalgam between a needing and desiring population and a fragile political environment will create both a challenge to the industrialized world as

well as an enormous potential market for all of us. We should not shut it off. Developing countries slowly but surely are trying to diversify; they seek to earn foreign exchange to pay their debts, import goods and improve their standard of living. No longer do they make only Tinker Toy sets and a few textiles, some cotton goods, or prepackaged foods. They are beginning to make sophisticated products, and in that process they are major importers of a great deal of the technology and goods and services of the industrialized world. We should not choke off their exports, for surely it will deny to those countries the foreign exchange needed to purchase what the industrialized countries can offer.

In 1950, as a practical matter, only Hong Kong and Israel were actively manufacturing goods. By 1960, Taiwan, Korea, Singapore, Southern Europe, Spain, Greece, Turkey were primarily producing shoes and textiles. Now many countries are producing, both manufacturing goods and agricultural products, chemicals, steel, chemical components, pottery, glassware, ships, cement. Trade restrictions on them, as against all "foreigners" is perhaps politically easy to implement, ~~but~~ such action, I would suggest is shortsighted. The long run experience of many countries indicates that the longer the domestic economic adjustment process is put off, the greater the damage and the worse the allocation of resources. I would suggest that protectionism won't and shouldn't work because (1) there are too many in this room and throughout the industrialized world who find it against their own best economic interests; they thrive on imports. It will not work; (2) It is not in the self interest of countries who are important to the United States; (3) it is inflationary if

implemented; (4) it keeps the inefficient in business; (5) it will only put off retraining and re-educating; (6) it misallocates resources domestically; and (7) it dries up world markets and world trade. In short, it simply doesn't make sense; and, if it occurs, it will be short-lived with more pain than pleasure.

The prospect of greater and freer trade is not a one-sided affair. It is for our mutual benefit. Developing countries do not exist solely for the purpose of providing captive markets for exports and a source of inexpensive finished goods or raw materials. Western industrialized countries no longer control Africa and Southeast Asia as captive markets for exports and the suppliers of low cost raw materials. The resources in those countries are for those countries' benefit and will be developed in the perceived best interest of those societies.

There is yet another aspect. Visible changes occur within one generation in LDCs. That is a remarkable development. Few of us can remember a substantial difference in our lives between today and ten years ago in the way we lived. In terms of most of the infrastructure around us, things haven't changed all that much -- particularly in the last ten to fifteen years. But in a developing country, many see remarkable change -- virtually immediate reinforcement. There is a sense of gratification. They realize that their children are not necessarily dedicated to a life of poverty. They have hope. The bottom line is that it is not likely that all of these factors which have created challenges, stress and opportunity for industrialized countries are temporary or insignificant. The response in industrialized societies has been

disappointing. We ask for protectionism from outside pressures, and domestically blame our own poor and ask for subsidies and tax advantages as a means of making our system more efficient and productive.

One would think that all our ills are attributed to families on welfare or the non-taxpaying underground economy or recently to the strong dollar. I saw no great trade surge, no great marketing, no great vitality of basic industry when the dollar in the last decade was at an all time low.

No, we have consistently preoccupied ourselves with short-term accounting profits and commit little to long-term infrastructure. We look mostly at the next quarter, perhaps six months or at most a year in advance -- rarely further. Indeed, is it not fair to say that the corporate sector takes great care to avoid current financial pain, even at the expense of foregoing retooling and increasing capital expenditures? We put off expenditures which we know are necessary if the gain will show up only years from now. We hide losses and mistakes.

We seek tax benefits which serve as a substitute for assessment of risk. We do not measure opportunities lost. It is little wonder that some conclude that the answer is protectionism internationally and that the domestic "problem" is the poor and government. That simply is not the case.