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REMARKS OF SECRETARY OF COMMERCE ELLIOT L. RICHARDSON
PREPARED FOR DELIVERY TO THE 1976 CHICAGO WORLD TRADE
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It's a special pleasure for me, as Secretary of Commerce, to have this opportunity to meet with so many leading members of America's exporting community.

I don't have to tell this audience about the importance of exports to Chicago and the Nation. Obviously, exports are no mere economic luxury here in Chicago, no incidental sideline.

You know the impact of trade on the economic life and living standards of this great city. And you appreciate, I am sure, the significance of an economic environment, from tax incentives to government promotion, that provides every incentive to expand our export trade.

To this end, I am going to the Republic of Korea in late May for the Seventh United States-Korean Commerce Ministers' Meeting, which will center on developing closer economic and commercial ties and opportunities for expanding trade between our two countries. Korea has become a substantial trading partner of the United States, and last year ranked 16th in the U.S. export market.

It goes without saying that we need every foreign market we can get. We need vigorous export growth to pay our still mounting bills for imported oil. We need it to create jobs. We need it to pay for the increasing volume of imported goods and services our domestic market will attract this year, as our economy recovers at a faster pace than that of our trading partners.

There is no foreign market we can afford to overlook, and the urgency of that fact will become even more apparent in the years to come, as the growing global interdependence we hear so much about becomes more and more of a tangible reality.

That is why, today, I would like to talk to you about a great new emerging market that rarely gets the treatment it deserves in forums of this kind. I refer to the less-developed nations of the world, particularly the poorer, non-oil producing countries, whose people constitute roughly half the world's population.

Already, the markets of these emerging nations are of a size and significance that is not generally realized. In 1974-75, for example, the non-OPEC LDCs accounted for no less than 28 percent of total U.S. exports.

Moreover, the traditional image of their economies as stagnant and dependent on commodities is becoming increasingly inaccurate. Actually, these countries now provide over 20 percent of all U.S. imports of manufactured goods.

In addition, one third of LDC imports over the next few years will be in capital equipment -- an encouraging sign of economic vitality, as well as a category that has long been a strong point for U.S. exporters.

But another aspect of the LDCs traditional image remains all too true, and that is the terrible, grinding poverty that oppresses the people of these lands. Some 900 million people, according to the World Bank, live on incomes of less than $75 a year, and the majority of others are only a little better off.

Squalor, hunger, disease and hopelessness limit their lives to a desperate, daily struggle for survival.

Equally distressing is the fact that, although economic progress is being made, it is slow and tortuous, and its impact has been negligible on the widening gap in living standards that separates them from the developed nations of the world.

The one billion people of the poorest developing countries, for example, can expect their GNP per capita to grow only $3 between 1970 and 1980 -- $3 -- from a meager $105 to $108. The 675 million people of the developed nations, on the other hand, will experience a per capita GNP growth of $900, from $3,100 to $4,000.

Indeed, the word "gap" hardly describes the difference. It is a chasm, an abyss, and one that must be bridged, must be closed, because a stable world cannot be built around it.

It is a challenge to our conscience; a challenge to our sense of justice; a challenge to the sense of ourselves as a caring and compassionate people.

We cannot look away.

Fortunately, for all concerned, there are those compelling economic reasons for becoming involved in the development of the LDCs -- economic reasons that coincide with and complement our humanitarian and policy interests in the same area.

As the economies of the LDCs develop, the size of their markets for U.S. exports will grow enormously. Assuming an economic growth rate of six percent a year in the LDCs, U.S. exports to these countries could well run at an annual rate of $70-75 billion by the end of the 1980's -- an increase of two and a half times the current level, in constant 1974 dollars.

That is the <u>potential</u> market, and it is a substantial one by any standard. But that potential is dependent on the LDCs economic growth, and especially their export capability. In order to buy more from abroad, they must be able to sell more and earn more. Most importantly, they must be able to obtain the capital they need to finance their accelerated growth.

They must have expanding markets for their exports -- especially in the developed countries. Trade is a two-way street. In order for us to export more, the U.S. must strive to reduce restrictions on imports. The temptation to resort to protectionism is always lurking around. We must continue to resist it or suffer severe damage to the liberal trading system we have worked so hard to build and which has benefitted Americans and the world so greatly.

We want to see the LDCs develop and participate more fully in the world trading system, sharing both rights and obligations. To facilitate this process most developed countries, including the U.S., have instituted a general system of preferences for developing countries. In this system, LDCs receive preferential treatment for products they sell in our markets, within reasonable limits, of course.

The trouble is, the production base for self-sustained development is lacking. And, as always, the vicious cycle of poverty perpetuates itself.

Without an adequate production base, they can't earn enough from exports of manufactured goods to pay for the tremendous amounts of capital goods they need to improve that production base. Nor can they earn enough from exports of their natural resources, even though these have been growing at improved, more stable prices. Nor, finally, is aid from the developed nations likely to be sufficient.

Obviously, the only way to break this cycle of poverty is with heavy infusions of foreign capital--massive infusions from every available source.

According to a staff study by the Department of Commerce, the investment needed to support a real GDP growth rate of six percent a year is currently $116 billion. This will grow to a staggering $262 billion by 1990. Given a steady growth in exports by the LDCs from $100 billion this year to $267 billion by 1990, the foreign exchange still required, after savings, to support that six percent growth rate will increase from $41 billion this year to $87 billion in 1990.

That is what the development experts are referring to when they talk about the capital shortage of the LDCs -- $41 billion this year, $87 billion in 1990.

Where is all this capital going to come from?

The answer -- the answer with the greatest potential -- is direct foreign investment by multinational corporations.

This is not the only answer, of course. What is urgently needed is greatly increased capital flows from all sources -- exports, credits, bilateral and multilateral aid, as well as private investment of other kinds.

But there is no escaping the fact that the capital supplied by MNCs is the most readily available for meeting the chronic shortfalls of savings and other capital flows. In addition, the capital supplied by MNCs tends to be more effective because it carries with it such additional benefits as manpower development, a marketing apparatus and managerial expertise, which the LDCs need every bit as much as capital.

Admittedly, it would be extremely unrealistic to expect direct investment by MNCs to compensate completely for the capital shortage of the LDCs. In 1971, for example, such investment from the U.S. and other developed nations totalled only $2.9 billion. But it has shown dynamic growth, reaching an even $5 billion in 1974, an increase of more than 70 percent.

Again, if the capital gap were to be filled solely by direct foreign investment, then the additional flow needed in 1980 alone would have to be about $17 billion in 1974 terms -- or more than three times the current level. Nevertheless, the magnitude of the problem should not be allowed to diminish the importance of so realistic and effective an approach.

I, for one, remain optimistic about the promise of MNC investment, at least moderately so. And I can tell you precisely why.

I am optimistic because I believe that the internationalization of production by the multinational corporation is having an impact on the world which, in time, could equal the benefits of the industrial revolution of two centuries ago. And this internationalization of production will, in time, do for the LDCs what the industrial revolution did for the developed nations.

Even now, we are witnessing the development of a truly world economy. Increasingly, the investment decisions and operations of multinationals can be viewed in terms of world allocations of resources and a maximizing of world welfare.

As one indication of what has already happened, I might note that international production has already surpassed foreign trade as the main channel of economic relations in terms of size, rate of growth and future potential.

The international company has become the single most important vehicle for developing a world system based on a more rational allocation of resources than has been the case in the past. And if existing opportunities are grasped by the developing nations, it can become the single most important vehicle for accelerating their growth, and raising their living standards.

Why, then, it must be asked, are the LDCs so reluctant to embrace the MNCs, and vice versa?

The major obstacle -- and it is a formidable one -- is the corrosive lack of confidence between the nation states of the developing world and the MNCs.

Both must cope with the residue of resentment and suspicion that stems from a troubled history of colonialism, on the one hand, and expropriations without fair compensation, on the other.

What is needed, obviously, -- and needed without mindless, nitpicking delay that can almost be measured in terms of human misery -- is an international code of conduct. And I mean a code that is mutually acceptable and mutually beneficial to both countries <u>and</u> companies.

Such a code is essential for building the climate of mutual confidence that will invite and encourage investment in the developing nations.

I believe that a workable code can be hammered out in hard bargaining, perhaps in an international forum such as the U.N. Commission on Transnational Enterprise, where a good start has already been made.

I believe it because I think both the opportunity and the need are great enough to dictate compromise, by both companies and countries.

Although an effective monitoring system will be needed to police the code, it will still call for mutual trust, with all the risk that trust implies. But we should remind ourselves it was trust of the same order, and risk of the same order, on which our civilization was built.

Trust and compromise are mandated by the very nature of the relationship between multinationals and LDCs. No one of these parties is really the dominant power in any of their relationships. The investing company is at the mercy of the host country, and the MNCs can go where they choose, to the most hospitable environment.

But my deepest optimism goes beyond the specifics of bargaining. It is based on the very fact of the profound economic force that the multinationals embody -- the internationalization of production.

The strength of this force has a life of its own, just as the developments of the industrial revolution proceeded without respect to national policies or traditional economic patterns. Such a force creates its own environment. It becomes the new reality with which all nations and all governments must cope.

It will change our economic assumptions and our economic order just as surely as the revolution in telecommunications is changing our way of looking at the world and ourselves, as well as our way of reacting to events worldwide.

All talk of forging a new economic order in the world is already ex post facto. That order is here, and the force that is shaping it is growing stronger year by year. The challenge is not to change it -- that is impossible -- but to adapt to it for the benefit of all nations.

It is equally futile to attempt to stem the tide of international production by claiming that direct foreign investment exports jobs from this country.

Labor organizations charge that U.S. firms are manufacturing in the LDCs goods that would otherwise be made here, by American labor, and then exported. Similarly, it is charged that these goods are also being imported to the U.S., with an equally negative impact on employment here.

In this view, American MNCs locate operations in LDCs strictly to take advantage of low wage labor, at the expense of American workers.

The best evidence indicates that these charges are inaccurate. Moreover, they tend to overlook the market realities that face U.S. companies and the complex motives that govern overseas investments.

In a survey of 76 American MNCs conducted for the Department of Commerce, only 13 cited low wage costs as a factor in locating operations overseas. And, almost invariably, this factor was not the decisive one in making the decision. Almost without exception, greater importance was attached to other reasons.

Not surprisingly, market factors were the most important consideration. The existence of growing markets, faster sales growth abroad than in the United States, the need to maintain market shares, to meet local content requirements and host government pressure, to obtain use of local raw materials or components -- all were cited as more important considerations than lower wages.

And underlying all the considerations was the concern that competition could not be met by exports from the United States because of the disadvantages of both higher transportation costs and the higher costs that would result from tariffs and other barriers to trade.

In any event, there is much to suggest that U.S. foreign direct investment is actually a positive factor in creating or preserving jobs for American workers. There is substantial data indicating that approximately one-quarter of U.S. exports are sold to U.S. affiliates abroad.

That's right now. But what is <u>most</u> important in evaluating the economic benefits of direct U.S. investment in developing nations is the enormous market of the <u>future</u> that such investment is helping to create for U.S. exports. As I noted, we are talking about a potential market of $70-$75 billion in less than fifteen years -- a market two and a half times its current size, a market that will continue to grow and, equally important, a market that will generate more than two million additional American jobs by 1990.

In any event, whatever the objections to multi-national investment, we can be certain that, like a primal force, it will persist and grow.

It will persist and grow because economic needs of great magnitude have at last been recognized that no other mechanism -- no institutions, or international arrangements, no grand schemes -- can meet quite so well.

Everyone agrees that the rapid development of the less developed nations is both desirable and urgent. No one denies that the developed nations have a moral obligation to expedite that development.

But we cannot do it by insulting economic realities. We cannot do it with fantasies and outrageous demands.

We have an effective, efficient instrument for doing it. And the leaders of the developing world would, in my view, be shortsighted indeed not to find a way to make maximum, equitable use of it.

As for the calendar, the time frame of development, that causes so much tension between developed and developing nations, I am reminded, first, of the great age of man on this planet, and secondly of the elderly scholar who decided to take up the study of mathematics in his 75th year. His young research assistant chided him that such a study would perhaps take ten years to bear fruit.

"In that case," the old scholar said, "We had better get started this afternoon."

We can reduce the tension of development by recognizing the magnitude of the task. But the only way to reduce the magnitude of the task is by getting started now, with the best instruments at hand.

Rational men cannot long sustain an interest in achieving what is clearly impossible or widely improbable, no matter how desirable. Yet, rational men all over the world are striving to find ways to solve, on a scale never before attempted, problems that have wracked the human race for uncounted centuries -- problems rooted in need and want, hunger and hate, and suspicion.

But the search for a solution does not stop, because we recognize that something can be done. We have at last the technological and productive potential to eliminate want and the desperations born of want, and build a decent level of existence on a world-wide scale.

As Arnold Toynbee has said: "Our age will be remembered not for its horrifying crimes not its astonishing inventions, but because it is the first generation since the dawn of history in which man dared to believe it practical to make the benefits of civilization available to the whole human race."

We dare to believe it practical. It is more than a hope. It is a rational expectation, and as such adds substance to the will to get on with the job.

Thank you.

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