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## The Role of Business in the World Economy\*

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The world business community, as represented in the International Chamber of Commerce, has studied the Brandt Report with great interest and care. It accepts the importance and urgency of the issues treated and subscribes wholeheartedly to the central aims which have inspired its authors. Like them, the business community abhors poverty, disease, malnutrition and illiteracy, considering their elimination to be both a moral imperative and the main route to social progress. It would also be good for business.

The Brandt Report changes a rather passive acceptance of inter-dependence into the more active challenge, for all states, of building on their mutual interest and working for greater prosperity in all parts of the world. Herr Brandt's introduction also appeals specifically to 'technicians and managers, to members of the rural and business communities'—in short the private sector. So far, so good. So we looked for the description of the political and economic environment through the 1980s, in which to find opportunities to contribute more.

In this respect the Report surprised us. It does not seem to have noticed how fast the real world economy has been and is evolving. In the 1970s a growing number of developing countries have come to ignore the rhetoric of the 1950s and 1960s, propagated in their name under the intellectual leadership of Raul Prebisch. They have rumbled the exclusive, centrally planned nonsense of yesteryear. They are looking to competitive enterprise as the powerhouse in their development.

Who would guess from the Brandt Report or from UN debates, as most relationships on a working level are bilateral, that there are now almost 200 bilateral treaties for the protection (and so the encouragement) of international private investment to which developing countries are parties? Or that the UN itself is showing signs of responding to the new reality? The so-called Mexico Resolution, unanimously adopted earlier this year at the Sixth Session of the UN Commission on Transnational Corporations and subsequently confirmed by ECOSOC, acknowledged—albeit fleetingly—the contribution of multinationals to the development effort.

In the second place, the Report has over-emphasised the strict division of the world into so-called North and South, rich and poor, haves and have-nots. Such a division may offer a convenient political shorthand but it looks more artificial and inaccurate as each year passes. As such it has introduced unnecessary and sterile conflict into development discussions and diverted attention from the real issues of desirable growth. The world economy comprises a changing spectrum of countries at every stage of economic development, and to ignore this is to diminish the prospects of a better understanding of the development process.

In this context, it seems to us odd that the Report makes little more than passing reference to the so-called NICs, the newly-industrialised countries whose growing numbers are already a major force in the world economy. It is neither a contribution to the intellectual debate nor helpful to the more backward developing countries to lump them all into one virtually homogeneous category. The dynamics of development need to be more fully understood, and the lessons of success more widely applied. It was unfortunate, to say the least, that, with the debatable exception of Malaysia, no member of the Brandt Commission was a citizen of a NIC. The successful developing countries are, no doubt, more interested in making progress than statements. It should be an object of diplomacy to bring them more fully into the debate.

Thirdly, the Report focusses excessive attention on *re-distribution* of wealth, to the comparative neglect of wealth *creation*. It is unfortunately true that much of the development debate is preoccupied with the reaction of rich country governments to Third World demands for increased official transfers. It was thus understandably a principal issue for the Brandt Commission. However, as a consequence, the importance of wealth creation and the conditions which promote it most rapidly have been relatively ignored. The ICC membership regrets that the Brandt Report reinforces this imbalance since we believe that the 'transfer of resources' is not in itself the means by which adequate and sustainable development will be promoted.

Further, preoccupation with transfers of official aid has the damaging consequence of encouraging the impression in the developing countries that government is the source of wealth and prosperity. It is one of many factors which, throughout the developing world,

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have led to a disdain for market mechanisms and a preference for bureaucratic planning of economies. The Brandt Report lends its authority to the belief that central regulation is virtuous and can 'solve' problems. This apparent faith in the capacity of official committees to make a host of complex choices seems to us a triumph of hope over experience. Moreover, the Report further strengthens this essentially political approach by appearing to accept that what chiefly determines the material welfare of countries is not the extent and efficiency of their productive capacity but their bargaining power in relation to other countries. It is an Alice-in-Wonderland world where prosperity flows not from factory or farm but from government offices and UN Resolutions.

Centralised economic control has impeded the development efforts of many poor countries. After two or three decades' experience, we no longer need to theorise; we can observe the record. And the record is that open, decentralised economies which encourage the individual entrepreneur and respect market forces outpace the rest. It is, of course, sometimes claimed that developing countries require large state sectors and centralised economies because they lack indigenous entrepreneurs. But if the state is successfully to promote economic activity, the public sector requires the same scarce entrepreneurial talents. If a country is short of entrepreneurs, extension of the economic domain of governments is unlikely to remedy the deficiency. To burden their civil servants with additional entrepreneurial responsibilities before they are able to carry out effectively the basic administrative duties of government is asking for trouble.

Of course, official aid has an important role to play in the development effort—especially in relation to the most backward countries where a primary function is the essentially charitable one of relieving absolute poverty and averting famines and epidemics. It can also make a vital contribution by helping to develop a country's human resources and basic infrastructure, for business cannot operate efficiently with illiterate and unhealthy people with primitive communications systems. Aid can obviously be a major factor in creating the substructure for production and exports. But my point is that an *excessive* aid-oriented approach to development can be harmful—and the Brandt Report aligns itself with such an approach. I have already mentioned its tendency to lend weight to the conviction that government is the source of wealth. But, in addition, it concentrates attention on the amount of resources available to the developing countries to the relative neglect of the *efficiency* with which those resources are used. As the Pearson Commission pointed out more than ten years ago, 'the correlation between the amounts of aid received in the past

decades and growth performance is very weak'. It is now increasingly appreciated that the progress of many developing countries is retarded, not so much by a shortage of finance as by a shortage of the desire and of the technical and organisational skills at different levels to absorb capital in productive investment. And, frequently, such countries have been unable to take effective advantage of available finance because of inappropriate internal economic policies which only they can change.

Finally, the aid-oriented approach has tempted the industrialised countries to take the easier course for them of offering aid instead of trade—that is to say, instead of opening up their domestic markets to Third World exports and paying for them with exports of capital goods. The liberalisation of the world economy remains a principal preoccupation of the ICC and we have lent strong support to successive postwar initiatives to liberate trade in manufactures, commodities and now services. The broad-based Consumer Council supports this also.

The long-standing preoccupation with aid-giving has thus frequently distracted attention from adequate recognition of the role of international trade in wealth creation and development.

Finally, the Report, it seems, neglects the most important ingredients in development. For, when all the rhetoric is spent, who actually creates the wealth on the ground? Who turns World Bank loans into dams and roads and schools and hospitals? Who possesses the know-how to put official aid to productive use? Who creates and owns the technology to be transferred? Who pays taxes? Private people and companies. And, after all, the countries which possess the resources which Brandt wishes to transfer have grown essentially in the private sector. Within the developing world itself, it is those countries which have facilitated and encouraged this endeavour which have made most progress towards industrialisation and the basis for a prosperous and self-reliant economy.

It is then the prospect of harnessing and adapting more widely and effectively the reservoir of technical and organisational expertise possessed by the business communities that holds out real hope for more rapid economic development world-wide. Governments can *alleviate* poverty through aid transfers. But it is to the business community we must look if poverty is to be eventually *eliminated*. The principal development issue is how to enable the developing countries to increase their own capacity for wealth creation. To underrate this, as Brandt does, constitutes a disservice to countries at earlier stages of development.

The international business community already makes a major contribution to development. Private financial flows to the developing world already amount to virtually double official flows. Taken together, they are only a supplement to the productive effort within the countries. In addition, there are the transfers of managerial and specialist skills and technology on a scale that belittles the activities of governments.

The business community—both national and international—could and would do more given the necessary encouragement by governments. The Brandt Report acknowledges in places the contribution of business to development—including the contribution of the multinational enterprises. But it does so by way of passing reference rather than offering proposals to enhance it. The emphasis is essentially on centralised control of economic life and regulation of business activity. As a result the Report may have the unfortunate effect of reinforcing the suspicion of private business which still prevails within some Third World governments and which is seriously inhibiting their countries' economic development.

The Brandt Report places its emphasis on the need for action at the global level—though it does concede that 'changes in the international system alone will not suffice'. This emphasis is strange. Surely it is primarily to internal factors within each developing country that we must look for the key to more rapid progress. However well-endowed a country may be in natural resources, it will not attract the productive investment and know-how to exploit them unless it provides an administrative and legal framework which encourages enterprise and risk-taking. Business needs to know whether a country's government is stable and

creditworthy internationally; whether its development priorities are economically sound and consistent; whether a high standard of law and order is maintained; whether there is social harmony; whether the public administration is efficient, expeditious and honest; whether there is full legal enforcement of contracts and protection of property rights, including trademarks and patents; whether taxation levels on business and individuals are reasonable; whether foreign investors are subject to equitable conditions concerning profit repatriation and requirements with respect to local equity participation; whether there are fiscal incentives for investment; whether there is a high level of inflation; whether the government imposes controls on prices, profits, dividends, wages, or expansion of capacity; whether the work force possesses an adequate level of general education, and is mobile, industrious and easily trained; whether the country's communications infrastructure is adequate; whether the government welcomes and encourages both private entrepreneurial activity and constructive communication with the business sector at the formative stages of policy making.

These are the more important factors which determine the extent to which private business is willing and able to contribute to the development effort, and they count for far more in the wealth creation process than any amount of 'Unctalk' or resolutions. Very many of them are within the control of governments. In those developing countries whose governments have succeeded in meeting a goodly proportion of these needs, the business community has responded with considerable dynamism, flexibility and imagination. It is our hope that the success of such countries will continue to provoke imitation across a much wider spread of the developing world.