

THE GREATEST CHALLENGE FOR THE WORLD BUSINESS COMMUNITY –  
MAKING IT POSSIBLE FOR THE POOR NATIONS TO SHARE  
IN GLOBAL PROSPERITY

*If we are to have a world where all people have decent living conditions – where the critical global environment is protected – where all people can live in peace and harmony with the freedom to enjoy their lives – if we are to achieve this then we must face up to the issue that half of the world's population is living in poverty. We must find a way to change their predicament. Governments alone cannot solve this problem. Poor nations without resources cannot solve their problems. Only the private sector, where the money is, can, with the collaboration of governments, effect the changes that are necessary to make this happen. Only the investment community that has almost all of the transferable wealth – 35 trillion dollars invested in the stock markets – has the means to significantly begin correcting this inequity. Only if the conditions can be created that will encourage investment of this money in poor nations – to create employment and generate trade – can this greatest of all world problems be solved.*

The Dilemma

From an economic perspective, the last decade of the 20<sup>th</sup> century meant progress and prosperity for most of the well-to-do nations on this earth. Standards of living improved. The market economy became recognized as the economic system that best produces goods and services. It created a phenomenon now known as globalization that is being driven by technological innovation and has resulted in unprecedented wealth for certain nations as well as many individuals.

But not all is well on this planet. Half of the six billion people on earth live on less than two dollars per day. Another two billion are poor, but are making some progress. Then there are the one billion people who are doing well, some exceptionally well. Since half of the people are not progressing, the global income gap is widening. Only a small amount of the wealth of the advanced nations is finding its way to the less developed countries. Economic progress and the benefits of technology are passing them by. It is not only a moral dilemma to have so many people on this planet living in poverty and receiving very little assistance from the wealthier people, but it may ultimately turn out to be dangerous and destabilizing.

What, if anything, can be done?

### Why we should care

The world of the 21<sup>st</sup> century is interdependent. An action in one country has consequences in many other, far-flung places. The resources needed by all of us – fish from the seas, lumber from the forests, oil from the ground – will depend on the production and consumption decisions taken by people throughout the entire world. The diseases to which we will be exposed can spring from any country where public health is ignored and, from there, can spread elsewhere. No community, not even the poorest among us, can be excluded from the calculus of decisions that will determine the quality of our lives. If most of the world remains poor, the decisions made in those environments will adversely impact the quality of life enjoyed by the rest of the world. Poor economies will not develop strong self-assured middle-classes, therefore such societies will find it hard to sustain democracy. They will more likely nurse ethnic grievances, resort to dictators, welcome violence, succumb to anarchy or resort to the terrorism of nuclear weapons and of biological and chemical agents.

Rising living standards, and the education of women will make it easier to restrain population growth and will encourage this planet's inhabitants to work together in collaboration for mutual benefit rather than in reciprocal destruction. Raising living standards throughout the world will solve many of our pressing problems.

Within this new century, earth's human population will double. Unfortunately, the increase will occur among the developing nations. If nothing is done to raise global living standards, the poor will seek their fortunes by moving into wealthy nations by one means or another. The water, land and atmospheric resources of this planet will be degraded, perhaps beyond repair, and conditions of squalor which breed disease and anger will increasingly undermine the happiness of all humanity.

### New Possibilities Exist for Change

Governments and international agencies have been working for years to promote economic growth in developing countries, yet poverty remains a compelling challenge. Many are cynical that conditions for robust growth can ever be put in place for the world's poor. As recently as the last decade of the 1990's a number of important developments have occurred:

1. Following the breakup of the Soviet Union there is now worldwide acceptance that market-directed economies and decentralized decision-making in economic affairs is the best way to produce goods and services.
2. Technological advances, especially in information technology, have made it feasible to conduct business in most any part of the earth.
3. Global companies with the capacity to invest anywhere now exist and are growing significantly as they work to expand their operations globally.

4. There is global recognition of the desirability of trade as an essential condition to raising income and living standards – although it is recognized that dislocations and disputes will occur as trading grows in importance.
5. The explosion in liquid and transferable wealth during the last decade of the 20<sup>th</sup> century as evidenced by the market value of all stocks traded on the international stock markets is nothing short of remarkable. During this period the equity markets grew fourfold from 9 trillion dollars in 1990 to over 35 trillion dollars in 2000, making much more money available for investment around the world.

Under these new circumstances, harnessing business to invest where growth is needed makes more sense than ever before.

### Essential Conditions for Development of a Prosperous Nation

It is anything but a simple task for a developing country to transform itself into a prosperous nation. The process requires time, understanding and unusual effort. Unless and until certain conditions exist, this goal will not be achieved. Today, numerous emerging economies are progressing toward higher living standards but other countries have not even begun the process.

Some of the important conditions for successful development are:

1. Political stability is essential. An environment with a high degree of personal safety is a necessity. Arbitrary rule must give way to representative government.
2. Government officials must not be tainted by corruption and should be careful to be independent from commercial interests. Crony capitalism is anathema to the development of a prosperous economy.
3. A basic infrastructure that will satisfy the needs of business must be in place. This includes adequate transportation, electricity, communication, and banking systems.
4. A well functioning civil society is a necessity. Rule of law must prevail. Contracts must be fairly enforced.
5. A certain level of education of the people is essential. Eventually it will be critical to have broad education, particularly for women, for continuation of progress in economic growth and for stabilization of the world's population.

As these elements are put into place, the opportunities for private business to create new wealth become more and more appealing. The private sector as the producer of goods and services must be able to flourish if a prosperous economy is to be created.

It is the responsibility of governments, working with business, both local and international, to see that these essential elements for development are brought into being. Beyond that the private sector, both local and international, must respond with the investment and technology to develop the economy. Only in this fashion can poverty eventually be eliminated.

During the transition, all of these public and private initiatives will need to take place concurrently if the ultimate objective is to be realized.

### What must poorer nations do to attract foreign investment?

It is quite apparent that the poor nations of the world will not be improving their standards of living anytime in the foreseeable future unless they have access to capital. They need to have private sector investment in their countries so that they can build factories, provide employment, produce goods and services, export, earn foreign exchange and ultimately buy goods and services from other countries. Such investment can take the form of foreign direct investment where foreign companies invest in factories, equipment, real estate, etc. It can also take the form of portfolio investment where money moves into the stock markets of developing countries to support a growing entrepreneurial sector. And, the needed investment can take the form of loans from advanced countries, from the World Bank or regional development banks, or from the private sector.

The first two types of investment are equity investments (foreign direct investment or portfolio investments.) These are the most desirable forms of investment. Foreign direct investment usually precedes any significant portfolio investment. Unfortunately, much of the money invested in poorer nations comes from loans, which oftentimes can be called on short notice and must be repaid. For countries to have stability and to grow, they need a substantial amount of equity investment. Frequently, technology and know-how will accompany this type of investment.

The great preponderance of the wealth in this world resides within the private sector. Today the market capitalization of all the equities in all of the stock exchanges in the world is about 35 trillion US dollars. 90% of this market capitalization is represented by the stock exchanges in Europe, the United States and Japan. The other 10% includes some of the smaller industrialized nations as well as the emerging economies. The stock markets of the poorer nations of the world contain only a small fraction of 1% of the global market capitalization. The investment money in the world's stock exchanges is available to the developing and emerging economies, but only if those countries do the things that will cause them to be attractive areas for investment.

In the year 2000 about one trillion of foreign direct investment moved between countries of the world. Seventy percent of this landed in the United States and the countries of the European Union. All of the other countries, which comprise 90% of the world's population, received the other 30% or \$300 billion. Clearly the United States and European multinational corporations were very cautious when making capital commitments in the emerging economies and the developing nations.

At one time there was a great reluctance to have foreigners invest in one's country; however, the way the world is changing, it will soon be the case where every nation on earth will have a significant amount of foreign investment in its country and it will likewise have investments in other countries.

Although there is a reluctance on the part of many people in poorer nations to change their behavior in order to get access to investment capital, it is a fact that unless they do so their people will continue to have a very low standard of living. It is even true that some governments and some individuals in these poorer nations would rather maintain the status quo than make the changes that are necessary to move their countries into a better position.

As we see it, the private sector in these poorer nations must do certain things if they are going to be attractive for foreign investment. They must adopt business behavior that is compatible with the systems used in other parts of the world. They must prevent corruption and bribery and maintain a separation between government and business that will not permit business to be so closely aligned with government that favoritism and corruption will be a way of business life.

Businesses need to observe accepted principles of corporate governance, publish accurate financial results of their enterprises on a frequent basis, provide properly audited financial statements on a timely basis prepared according to accepted international accounting standards and be transparent in activities and decisions that affect the public and investors. Only by taking these corporate actions can the private sectors of developing nations attract large sums of capital. The various steps the poorer nations must take to attract investments are all things that help assure a return on that investment that will attract it in the first place.

This is a very tall order. Success in all of these endeavors will involve a great deal of understanding and will require time to bring more prosperous conditions into reality. But if such changes are not made it is difficult to imagine how and when these nations will ever be able to move from a state of poverty for most of their citizens to progressive and prosperous economies.

#### How can the wealthy industrialized nations help?

It is also incumbent that the wealthier nations conduct their financial affairs in a way that will make it possible for these poor nations and emerging economies to progress without falling into financial crises such as occurred in 1997. The rules for lending need to be examined, especially the practice of withdrawing funds at short notice. At the same time, lending should be prudent and responsible, with

proper monitoring of the use of the funds provided. It is not reasonable that the flows of foreign capital in and out of these nations should be conducted in a reckless manner that constantly put these nations' economies at risk. Terms of these loans and investments need to be examined especially as to the rapidity with which capital can flow in and out of these countries, even though the appropriate terms may result in a somewhat higher cost of capital.

We have a global economy where the wealth is heavily concentrated in the prosperous nations and only a very modest amount is put to work in the poorer countries. Capital will not flow into these poorer nations unless there is a proper balance between risk and reward for these investments. Many of the poorer nations have historically relied on government aid or government-backed loans to build their economies – but with limited success. The preponderance of resources in the world reside in the private sector and not with governments. In fact, the private sector is the basic allocator of resources around the world. Where investment goes, the economic growth rate improves; and, when the growth rate improves, the standard of living of people in that country also improves. It is hard to imagine that prosperity will occur in any other fashion.

Business executives in the industrialized nations need to take a more active role not only in understanding global problems and their possible solutions, but also play a central role in seeing that the mechanisms are established to facilitate private financing.

Business executives also have a special responsibility to make sure that they do not encourage the taking of bribes by government officials both in the poorer nations and in the emerging economies.

### Concerns about Globalization

Both the wealthy and poor nations have concerns about globalization.

The former fear unfair competition from poor countries due to the indiscriminate depletion of resources, lack of enforceable environmental regulations, substandard wages – all of which tend to reduce product costs and eventually eliminate jobs in the richer countries.

The poorer countries see globalization benefiting the richer nations, who appear to have created the World Trade Organization as their club to see that rules would be written and enforced to keep the poorer countries in their place. They question the sincerity of the wealthy nations when they profess to help their poorer cousins while at the same time denying them access to the markets of the world for their agricultural and textile products. They are also afraid that their embrace of globalization will in the end spell doom for their traditions and cultural values as foreign commercial interests invade their countries.

In spite of these concerns, it seems quite apparent that assistance from the private sector is the only way that the poorer nations are going to improve their standards of living anytime soon. For some it is a difficult decision whether to abandon old ways in exchange for the promises of globalization.

## The Role of the Caux Round Table

We in the CRT, a multinational community of senior business leaders, believe that it is up to business to play a more active role in guiding globalization in positive directions so that the entire world can eventually profit. We believe that globalization, even considering its present imperfections, offers the best hope, if not the only hope, for significantly improving the living standards of the poorer people on this planet any time soon.

The CRT promotes its *Principles for Business* to give business leaders around the world sensible rules for ethical behavior and good corporate citizenship. Use of the *Principles* promotes trust among businesses in different countries, encouraging the flow of capital and exchanges of technology around the world. The *Principles*, if followed, will prevent many of the abuses of globalization and lead to more equitable development among all the world's people.

The CRT is making a special effort to promote dialogues among the key actors to remove obstacles to successful globalization. The basic objective is to create awareness both within developing nations and the world business community as to what needs to happen in order to make progress in accelerating investments in poorer nations and to participate in making necessary changes to attract investment. In line with this, the CRT is conducting dialogues in countries of Southeast Asia and Latin America and is planning dialogues in Africa.

The CRT solicits the involvement of senior business leaders in this project of constructive action to end world poverty. Support can be provided to the CRT first and foremost through personal participation in dialogues arranged by the CRT with business leaders and government officials throughout the world. Each dialogue is focused on improving parts of the system in different countries where there is a need for capital. Second, business leaders can lend their name and personal endorsement to the *Principles* and efforts of the CRT. Third, business leaders can provide financial support to the CRT through personal and corporate membership in the network. The hope is to eventually bring an end to poverty and create a better life for all of the people on this planet.

To get involved, please contact the CRT Secretariat:

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