EUROPEAN ECONOMIC COMMUNITY

TRADE RELATIONS BETWEEN THE EUROPEAN ECONOMIC COMMUNITY AND THE ASSOCIATED AFRICAN STATES AND MADAGASCAR

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to the

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INTRODUCTION

The Committees of the European Parliament have recently expressed concern as to the trend of trade between the industrialized countries and the developing countries, and in particular between the EEC and the AASM.

The problem of international trade, which is closely linked with that of development, fully deserves the attention devoted to it. The special system embodied in the Yaoundé Convention for trade between the Associated States and EEC is a concrete expression of the importance we all attach to this problem.

I therefore wish in my turn to take the opportunity offered by the publication of the reports of M. Aigner and M. van der Goes van Naters to paint in broad outline the EEC Commission's general approach to these questions.

I say advisedly "general approach" and "broad outline". My talk will not be an analytical survey with statistical illustrations; it will consist rather of some general reflections to serve as an introduction to an exchange of views on the following key questions: What is the role of trade in the development process? What is the relative importance of tariff and trade policy in general development aid policy? What are the conditions for the success of the Convention in the field of trade?

I. CHIEF POINTS OF CONCERN

1. The concern expressed with regard to international trade arises generally from the following observations:

   (a) Although there has been a remarkable upsurge in world trade in recent years, this was very unevenly distributed geographically. Between 1953 and 1962 exports from the industrialized countries[1] went up by 70%, or twice as fast as those of the developing countries (37%)[2]. The share of the latter[3] in world trade thus fell from 31 to 24%;

(b) The share in world trade represented by trade between the non-industrialized themselves has fallen from 8 to 6% during the last ten years and that of trade between the industrialized and non-industrialized countries from 27 to 17%. Meanwhile, the share of trade between industrialized countries in the world total has risen strongly (from 37% in 1953 to 44% in 1962);

(c) The fall in commodity prices, which continued throughout the whole period 1953 to 1962, caused a reduction of about 10% in the unit value of exports from the Third World, while the unit value of exports from the industrial countries improved slightly (4%). It follows from this that there was a relative deterioration in the capacity of the developing countries to import by using their export earnings and this adversely affected the trend of their trade and payments balances.

Of course, this general trend varied in intensity by regions and countries among both the industrial and the developing countries.

Thus, the Six enjoyed an appreciably more favourable trend than the average of the industrial areas of the world, whereas the African countries associated with the EEC have experienced a more marked deterioration than the average of the developing countries.

Total exports of the Community countries increased between 1953 and 1962 by 143% and their unit value by 40%. On the other hand the exports of the AASM during the same period grew by only 15% in value and the unit value of their sales fell by 35%.

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(2) Including oil, without which the increase is no more than about 20%.

(3) All the developing countries plus Australia, New Zealand and the Republic of South Africa.

2. However, from the end of 1962, prices of many primary products began to recover thanks to increasing demand following the high level of activity in the industrialized countries and to non-economic factors in such cases as sugar, coffee and copper. This upward movement has been fairly steady for two years.

As the tonnage of exports from the developing countries also increased, the trade balance and the foreign exchange reserves of the Third World as a whole have improved.

The impact of this reversal of the trend on the different regions of the Third World has varied according to the structure of their production and exports.

Latin America has gained most from this trend, whereas Asia has not benefited to any great extent. The trade deficit of the AASM has become smaller. Taking into account the slowdown in the net inflow of capital to this continent, attributable mainly to political factors, particularly as regards Congo/Leopoldville, this trend of trade is particularly welcome.

It is very hard to say whether the trend over the last two years is likely to continue or whether it is only transient. Some products (sugar, coffee, cocoa) have been declining again for a little while now. Prices for others, such as oleaginous plants, have risen for reasons not all of which are lasting.

One thing is certain: the present recovery confirms how closely the developing countries depend on the world conjuncture, i.e., in the last analysis, on the situation of the industrial countries.

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II. LIMITATIONS OF A POLICY FOR REORGANIZING WORLD TRADE

One of the basic demands of the developing countries, especially since the Geneva World Conference, is for concerted international action to create rapidly a world trade trend which shall be more harmonious and more favourable to them.

The demand is certainly legitimate. However, we must realize the obstacles and limits which concerted action is likely to encounter.

If trade between the industrialized countries has developed more strongly than their trade with the developing countries and that of the latter among themselves, the main reason is a conjunction of closely interdependent basic factors which can be sketched very briefly as follows:

(a) The economic growth of the industrialized countries, particularly in Western Europe, has been fairly rapid, thanks especially to their efforts to step up investment and productivity and to the very pronounced diversification of their national productions. These factors have enabled them to manufacture and export a considerable proportion of finished goods - chiefly capital goods and "modern" consumption goods - with a high added value per worker. For various reasons these products enjoy internal and international demand which is expanding rapidly - much more rapidly than that for primary products. This buoyancy of demand, the growing importance of added value in the production costs of manufactured products, the high employment rate in the industrialized countries and other factors too numerous to be mentioned here, have helped to sustain prices of manufactures.

(b) Furthermore, the industrialized countries have followed a trade policy which calls for better international specialization of production and, consequently, favours the development of trade and national production. A feature of this policy is the lowering of quota and tariff barriers to trade. The effort to achieve economic integration begun by the Six, which is the most advanced example of this liberalization policy, generated an expansion of intra-Community trade between 1959 and 1962 twice as rapid as that of world trade and stimulated modern large-scale production, which is a prerequisite for productivity in certain manufacturing branches.

As against this, the expansion of the developing countries' exports and particularly of trade among themselves is radically impeded by the almost total absence of industrialization, narrowness of markets (further aggravated by the way they are split up) and, in some cases, by the lack of foreign exchange.

In the absence of a diversified and competitive manufacturing industry, primary products predominate in the exports of these countries. But world demand for these is expanding at only a relatively slow pace owing, inter alia, to competition from synthetic products and the technological advances which enable the industrialized countries to economize raw materials per unit produced. On the other hand, supplies have increased - particularly owing to the simultaneous expansion of agricultural production in the industrialized countries, so that surpluses have appeared in many items. The conjunction of superabundant supply and sluggishly expanding demand explains the trend for commodity prices to deteriorate in relation to those of more sophisticated products for which world demand is rapidly expanding.

The fact that the developing countries' national markets are so narrow and split up prevents specialization and adequate scales of manufacture, impairing competitiveness and the growth of enterprises and curbing the expansion of production and trade.

It is therefore neither by chance nor through any particular policy of the industrialized countries that world trade has evolved as it has done in the last ten years. Its structure and geographical pattern are largely the "resultant" of economic and institutional structures which it is practically impossible to change radically in a short time. Similarly, the trend of prices and quantities on the international market stems either from phenomena of the conjuncture and of underlying growth which are not entirely under the control of the industrialized countries or from economic laws - such as that of supply and demand - whose hold it is difficult if not impossible to shake off.

III. NEED FOR INDUSTRIALIZATION OF THE DEVELOPING COUNTRIES: HOW THIS CAN BE BROUGHT ABOUT

From this brief analysis a first conclusion may be drawn. No adequate speed-up of economic growth in the developing countries - which is the final objective of development aid - can be expected from the expansion of their exports in the next few years, since, with their present pattern of production, these countries can in the main export only primary products the demand for which is expanding only slowly in the industrialized countries. The relative decline of the developing countries' trade is therefore chiefly a result of the very structure of that trade and of the relative decline in world demand for their products. This being so, speedier economic growth in the developing countries and expansion of their exports both require an adequate diversification of national production which will gradually transform their present pattern of exports.

This objective in turn presupposes, primarily, the growth in the developing countries of manufacturing industry established on a competitive footing and orientated towards more sophisticated products which enjoy, or are likely to enjoy, rapidly expanding demand, particularly in the developing countries themselves.

But, like everything of a structural nature, these are obviously long-term objectives. Their achievement will therefore have only a gradual impact on trade. Furthermore, it presupposes the fulfilment of many conditions both by the industrialized and the developing countries. Some of these conditions will be briefly mentioned below.

1. The industrialized countries will of course have to try to maintain a high rate of economic growth, not only in the interest of their populations, but also to maintain and increase as far as possible demand for basic materials from the developing countries.

   They will above all have to help the industrialization of the developing countries, on the one hand by granting technical assistance and aid in capital and foreign currency in adequate amounts and by appropriate arrangements, and on the other hand by agreeing to harmonize their own industrial structure in the light of the progress of industrialization in the developing countries.

   It is in the present phase of its economic growth that the EEC especially should tolerate for the benefit of the developing countries gradual "abandonments" of productive capacities, particularly in the traditional sectors in which these countries already enjoy competitive advantages - which moreover may well be increased as time goes on. The rise in working population in the EEC in the years ahead will be appreciably slower than has been the case in the last decade. Consequently, it will be relatively easier to maintain full employment and at the same time more imperative than before to raise productivity per worker in order to prevent the wage strains which accompany full employment from affecting prices and in order to maintain adequate economic growth rates. This twofold objective requires that EEC should concentrate its productive resources more on the modern sectors with high productivity and high added value, which for a long time to come will still be beyond the technological and competitive reach of the new countries, and run down those sectors in which returns, profitability and contribution to economic growth are lower and will continue to be so in the future.

   Failing such "abandonments" and such "harmonization" of their industrial structure, the advanced countries will pay twice over for the opening up of the developing countries; first, "fiscally" through increasing transfers of public capital from their budgets, and secondly, "economically" through keeping alive sectors of their economies which in a situation of full employment will deprive of productive resources in manpower and capital other sectors whose productivity and added value are higher.

Here the interests of the EEC and of the developing countries are convergent and complementary.

2. The developing countries will have to apply among themselves an effective policy of economic co-operation and market unification to stimulate investment and promote industrial specialization and activities which complement each other. This is absolutely necessary if these countries are to step up their mutual trade and gain the industrial experience which is imperative for competition on international markets, particularly those of the industrialized countries.

Such a policy presupposes a communications network organized on a less narrowly national basis.

More generally it must be stressed that the primary responsibility for economic progress remains and will always remain with the developing countries themselves. External aid can be decisive only when the amount of productive resources is the sole bottleneck obstructing development. But this is rarely the case. What is lacking most, particularly in countries like the AASM, which are still at the earliest stages of their development, is generally not so much capital as the ability of a community to make efficient use both of its own resources and of external aid and to organize the basic conditions for development. The process of economic growth cannot be reduced to a mere quantitative matter of scarcity of capital and foreign exchange any more than the historic growth of the industrialized countries can be attributed solely to the accumulation of capital and investment: in itself this is relatively sterile.

As regards in particular the AASM which on the average have not made their "economic take-off", the main task for the years immediately ahead will often be less one of providing large amounts of capital than of preparing these countries to absorb more of it at later stages of their growth.

IV. ACTION IN THE SHORTER TERM

The first conclusion we have drawn is that diversification of the developing countries' production structures under a policy of co-operation and unification of markets between these countries is the prime condition for more rapid world growth and more balanced development of trade between industrialized and developing countries.

Although to our mind this long-term objective has priority, we cannot for this reason abstain from more short-term action on trade to increase the export earnings of the developing countries pending the transformation of their production structures.

The time seems to be ripe to apply simultaneously:

(i) A concerted policy of stabilizing and even increasing commodity prices;

(ii) A policy of progressively opening industrialized markets to processed and semi-finished primary products from the developing countries.

On these two points, which correspond to two major demands expressed in Geneva by the developing countries both in GATT and the World Conference, the Commission has put in hand a certain number of studies which in the coming months will serve to pinpoint the basic elements of a Community concept and approach. It would therefore be premature to begin a systematic survey of these problems.

I should nevertheless like to mention three general points:

1. The first concerns the export earnings which the developing countries can expect in the short or medium term if industrialized markets are opened more freely to their primary products and semi-finished and manufactured goods.

   (a) It is clear that such opening of the industrialized markets will offer existing enterprises capable of exporting an opportunity to develop their productive capacities and to increase the export earnings of the developing countries. However, these earnings will probably be rather limited in the immediate future and even in the medium term. In fact,

(i) Demand for primary products is growing less rapidly than national product in the industrialized countries and this trend will continue in the future. Furthermore a reduction of duties and indirect taxes bringing down the final price to the consumer would increase the quantities imported by the industrialized countries only to the extent - fairly low on the average for these products - that a fall in prices stimulated consumption.

(ii) The competitive capacity of the developing countries appears very limited for most manufactured products as regards prices, quality, sales organization on export markets, etc.

To be more precise we should in this diagnosis distinguish between the developing countries according to their present state of advancement. Potential export earnings following the opening of industrialized markets obviously differ both in the short and medium term according to whether we are thinking of Mauritania and Upper Volta, or of Brazil and Argentina. This also poses the problem of selectivity by countries depending on levels of development.

In practice, nevertheless, the exceptions to this diagnosis will doubtless come down to a fairly small number of manufactured products(1). This is for structural reasons of marked underdevelopment in the case of African countries and for reasons largely connected with the inflationary situation and the unsuitable quality of the products in the case of more advanced countries like those of Latin America and Asia.

(b) As to the question whether opening the industrial markets is likely by "induction" to get industries going and diversify production in the developing countries - which we have already said to be the basic aims of development policy - I will make no secret that I am inclined to say it will not.

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(1) Cotton and jute textiles, certain hardware articles, some foodstuffs, toys and sports goods.

A widespread, induced effect of structural diversification could only really be expected from trade liberalization if this applied to countries already to a large extent industrialized, where all regions and sectors of activity are integrated into a monetary economy, where market discipline makes itself felt with sufficient force, and where problems stem more from the adaptation and extension of existing enterprises than from the establishment of new ones. These conditions are present in countries like those of EEC but not in the AASM.

At the present stage the tariff concessions and trade openings which the industrialized countries could grant the developing countries will only constitute at best a purely "permissive" condition for development, a very indirect incentive to industrialization.

2. My second remark concerns the commercial effect of the tariff preferences which the AASM enjoy in the EEC in relation to non-member developing countries.

It should first be noted that, by reason of certain obligations under the Yaoundé Convention and the Rome Treaty, tariff preferences are often accompanied by the progressive dismantling of bilateral market organizations in certain EEC countries, particularly France.

But whereas, in addition to tariff preferences, these bilateral market organizations cover guarantees as to outlets and prices, the trade advantages of the Association are essentially of a tariff nature. Thus, although the Association widens the potential market for the AASM, the advantages they obtain on Community markets as a whole are less considerable than those they enjoyed under the bilateral market organizations.

If it is desired to make a general assessment of the effects of preferences it must be remembered that they have only really operated on Community markets as a whole since 1 January 1962, when the first adjustment towards the common customs tariff was made. Before that date, and independently of the bilateral systems, several Member States (Benelux, Germany) had zero duties for most tropical products. In the few cases where duties existed (coffee in Germany), legally valid measures had been taken which had the effect of avoiding the introduction of preferences for the AASM.

After the Convention came into force on 1 June 1964, preferences for typical tropical products were brought to their maximum level by the combined effect of free entry for the AASM and the common customs tariff vis-à-vis non-members.

We therefore can judge the impact of the tariff preferences on trade only over a very short period. Keeping this in mind, and judging by the trend of the AASM share in the total imports into EEC countries of the products concerned, it would seem that the effect varies by product and country.

The factors which explain this situation are both general and particular. Their combinations differ moreover from one product to the other and it is not possible to segregate precisely the influence of each.

(a) Generally speaking the competitive price advantage which the tariff preferences are likely to confer on products originating in the AASM over competing products from other sources only becomes effective on two conditions:

  (i) That these preferences are reflected in a widening of the EEC markets and not in an increase in the profit margins of exporters or distributors of AASM products;

  (ii) That exporters competing with the AASM do not reduce their own prices to an equivalent extent and cancel out the competitive advantage enjoyed by the AASM with their tariff preferences.

(b) In some cases a price advantage is not sufficient: other factors, for instance importers' habits, consumer tastes, brand monopolies and advertising, may weigh heavily in the decision to purchase and thus in the geographical trend of imports. Thus, in Germany consumer tastes largely explain why little "Robusta" coffee is used and why "Gros Michel" bananas are preferred. In general the highly integrated organization of the world banana market also helps to neutralize the effects of the tariff preference.

(c) Tariff quotas at reduced or zero duties exist in favour of certain Community States (reduced duties on coffee in the Benelux countries, zero-duty quotas for bananas in Germany).

The AASM may therefore expect to derive from the tariff preferences effective trade advantages for certain products; an appreciable rise in sales in certain Member States and, for some products, even a definite increase in the relative share of the Associated States in relation to their competitors may already be noted. It does not seem, however, that the tariff preferences in themselves are enough to ensure the desired expansion of trade between AASM and EEC, particularly if we accept as a working hypothesis that, where it exists, the commercial effect of the preferences will decline if non-member developing countries become associates of the Community on the basis of the Yaoundé Convention.

This being so, the effects of the preference system need to be intensified by broader measures to promote trade taken jointly by the Member States and the AASM if it is desired that the Association should produce all its beneficial effects in the medium term and without waiting for the economic diversification of the associated countries.

3. A few words in conclusion on the trade deficit of the AASM. M. Aigner touched on this problem in his report and mentioned an AASM deficit in relation to EEC. This deficit exists if the trade balance is arrived at on the basis of AASM statistics. But if we take the EEC statistics there is a trade surplus in favour of the AASM (see Table 1 annexed). The reason for this divergence is that fob prices are taken for the values imported or exported when the accounting is done by the AASM and cif prices when it is done by the EEC.

I will add that for the years 1963 and 1964, doubtless under the combined effect of tariff preference and of the recovery of prices for the products exported by the AASM, EEC imports from the associated African countries expanded more rapidly than those from the other developing countries.

Nevertheless, although I share some of the anxieties expressed by M. Aigner, I should like to mention one or two other points of interest in discussing this problem of the trade deficit.

The trade balance (balance of trade in goods), like the balance of current transactions (goods and services, freight and insurance, transfers of earnings and dividends), reflects the position of an economy in the international balance. In this respect it is not abnormal for a developing country to show a negative balance in its foreign trade on any one cycle nor for an industrialized country to have current surpluses enabling it to export capital to the developing countries.

Furthermore, the trade balance has only limited significance in itself. In fact a deficit on trade (goods) or on current transactions (goods and services) can perfectly well be financed by a favourable balance of capital movements. Conversely, a trade surplus can quite well go hand in hand with a fall in exchange reserves if this surplus is offset by a deficit under the head of services and capital.

What is important finally is the capacity of the developing countries to finance the imports needed for economic progress. This can be done despite the existence of a trade deficit and of a deficit on current transactions, thanks to the net inflow of external capital. It is therefore the volume of this net inflow of investment capital which in the end determines the acceptable trade deficit (taking into account the level of available exchange reserves).

That is why the continuing trade deficit of the AASM worries me less than the trend in the movement of long-term public and private capital to associated African countries, which is tending to falter as far as can be judged by cross-checking, in the absence of satisfactory statistics on the payments balances of the former French countries.

If this fear were justified it would be a further reason for us to take up the question of guarantees for private investment capital against non-commercial risks and perhaps to try out new approaches which would enable public and private sources of finance to contribute to the expansion of enterprises in the developing countries, particularly the AASM.

Such, Mr. President, gentlemen, are the main ideas I wished to put to you. I have intentionally been concise in order to lend them more force and, I hope, clarity.
