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EEC POLICY TOWARDS THE DEVELOPING COUNTRIES

Bari Symposium, 7-8 October 1961

Address by M. Robert LEMAIGNEN
Member of the Commission
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Mr. Chairman, Ladies and Gentlemen,

I will begin by giving the chairman an assurance — that I shall certainly speak for longer than the time allotted me; I think I am entitled to some indulgence, since I speak on behalf of the Commission of the European Economic Community, which is to receive the experts' report you are discussing and has been frequently referred to in the course of the debates.

When the Commission did me the honour of appointing me to represent it here and to speak on its behalf, I admit that I hesitated for a moment. In view of the distinguished quality of the body of experts entrusted with drawing up the report, among whom were two of my esteemed colleagues, both economists of world reputation, I was afraid of finding myself like a character of Corneille torn between love and duty if the conclusions of the report had differed greatly from those which the EEC Commission has adopted in preparation for future discussions on the renewal of the Association Convention. I hope the Chairman, Mr. Colombo, will allow me to say most respectfully that nothing less than the deep admiration I feel for him could have led me to accept the task.

Fortunately for me I was completely reassured as soon as I read the document, for I found that the views expressed therein coincide almost perfectly with those adopted by the Commission. The Gospel indeed says that the wind bloweth whither it listeth. In the case in point I am under the impression that it has blown fairly hard from Brussels towards Bari and I am very happy that this should have been so.

But I was faced with another dilemma. I mean that since, as I repeat, there was almost complete identity between what was written in Brussels and the general intention or substance of what emerged from the work of the experts, it was difficult to see what I could talk about. Whatever be the charms of Bari, it would have been regrettable to travel all the way from Brussels with an army of assistants simply to say "Well done, everybody"! So I took this document and read it carefully, asking my staff to do likewise and after putting it under a magnifying glass we discovered a few points which would justify my taking the floor.

The first of these points is financial aid as described and advocated in the document in question.

I would like to say a few words in parenthesis before coming to the main point. In the experts' report there is fairly frequent mention of the Development Fund, but even more – and it seems to me in more deferent terms – of the leading international institutions which perform the same function. I would like, therefore, to take this opportunity of telling you how the European Development Fund stood most recently – on 1 October 1961.

At this date the Fund had approved 190 projects representing an outlay of 220 million units of account – i.e. dollars – and we have very high hopes that the 300 million dollar mark will be passed by the end of the year. I would ask you to bear with me while I mention a few figures, which I think are worth quoting: at present the following projects financed by the Fund have been or are being completed: 260 bush hospitals or dispensaries totalling 8 000 beds, 40 maternity hospitals with 700 beds, 550 primary schools, five secondary schools, 270 training centres for agricultural or other occupations, 2 000 km of roads, nearly half of which are asphalted, 60 bridges, 18 berths in seven different ports. In addition, about 7 million dollars have been spent on railways. To help rural production, 1 800 wells have been sunk or catchments made, while 35 million dollars have been authorized for spending to improve agriculture and stock-breeding.

I think I can say, weighing my words, that never in any circumstances has an effort of this kind been made in so short a time in such a number of countries. And as some of my staff who are responsible for this success are present today, I wish to pay public tribute to them by quoting these figures in your presence and in theirs.

I now come to the question of the financial aid itself. In order first to compare the Community's effort with international aid, I will recall that between 1959 and 1961 IBRD granted on the average 380 million dollars in loans annually to all the developing countries in the world, that the various United Nations Agencies spent 50 millions annually and, finally, that the International Finance Corporation established in July 1956 had approved total investments amounting to 44 million dollars by 30 June 1961. You see therefore that we can compare our effort with theirs without any feeling of inferiority.

But before talking figures we must agree on what financial aid really is, for transactions quite different in nature are all put down under that head. As you know, total aid from all the Western countries from 1956 to 1959 inclusive amounted, in grants – and I will explain later why I quote grants separately – to 9000 million dollars. Of these 9000 million dollars, 5300 million were supplied by the United States and 2900 million by the countries of the European Economic Community, France alone providing 2700 million. Nine-tenths of the total effort has therefore been made by the United States plus the European Economic Community. During the same period Great Britain made grants of nearly 600 million dollars. All in all, the rest of the affluent world – for the affluent world, Gentlemen, extends beyond the European Economic Community, the United States and Great Britain – generously provided at the most 400 million dollars, or less than 5% of the total.

In a moment we will be speaking of the world approach and we will then be able to discuss that approach with reference to aid and to a certain balance to be aimed at between the efforts made in different quarters. As I have said, the figures which I have mentioned concern grants. But if we consider total financial aid to the developing countries we note, from the study made by OEEC, that during the same four-year period this amounted to 28000 million dollars. The ratio between countries donating and countries lending is roughly equal, although the proportion of loans made by the United States and the European Economic Community is somewhat lower; the other contributing parties prefer methods other than free gifts.

I now come, Gentlemen, to the need to define clearly what we are speaking about, for between a grant to an underdeveloped State and an interest guarantee given to a European enterprise to enable it to carry out work in the same State, there is a considerable difference in kind for, after all, the interest guarantee in question is doubtless as profitable to the European enterprise as to the receiving country – and may even be more profitable. Consequently there is an error which must be avoided here and figures which must not be confused. When this question is brought up in international bodies like DAG we sense a feeling of embarrassment in the audience, not every member of which has a perfectly easy conscience. Those who have laid the emphasis in a given total on loan guarantees, private investments or investments in the petroleum industry – which, it must be said, have no very direct effect on the living standards of the receiving countries – feel that their attitude does not meet with whole-hearted approval.

Let us therefore make the necessary distinctions where financial aid is concerned. We hear discussions on the desirable level of aid: 200 million, 250, 300 million? We need to know what we are talking about. Are we talking of gifts? of gifts and loans? or simply of loans: I repeat that the latter are a very different matter.

Comprehensive studies made by American specialists show that financial aid per se is not always an extremely satisfactory form of help. Loans may encourage capital investment, which is not always very useful, and there is a risk of such operations imposing unbearable financial burdens on local budgets, though of course this sort of work is very profitable to the concerns which carry it out. Here we come up against the ticklish problem of the receiving country's capacity of absorption which is never studied thoroughly enough from the financial angle.

Our friends in IBRD – a financial organization which may be regarded as a model – readily admit that despite all the care taken the saturation point for loans has been reached in certain States. The directors of the Bank refuse to exceed this limit, for to do so would not improve but worsen the position of these States. Lending to a debtor who cannot pay his debts and the interest thereon means either resigning oneself to the loan becoming a gift – in which case it would be as well to say so immediately – or accepting the fact that it creates difficulties and may become a very heavy burden on the local economy.

But I will go even further. Our experience – and the figures which I just have quoted show that it is already an extensive one – has taught us that even the capacity to absorb free gifts may quickly be exhausted. For in these countries, where the volume of available manpower is modest and the majority of it agricultural, there is a risk that unlimited investments will transfer farm labour to building sites and peasants to public works. Such a transfer would be socially deplorable since, once the job is finished, the peasants will find themselves unemployed. There is also a limit to the carrying capacity of communications, for if the volume of materials to be transported increases beyond a certain point, bottlenecks harmful to the economy of the country will occur. To sum up on this point I will say, Gentlemen, that financial aid, although it has advantages and is even indispensable – far be it from me to suggest that we should discourage it – is not the only thing needed and in any case it should be dispensed with caution.

That brings me to my second point. Why is there so much talk about financial aid rather than the vital kind of aid – the provision of more outlets for the products of the countries concerned? It is doubtless important for these countries to have electric power stations and new factories, but it is much more important that they should have satisfactory markets for their products. Real aid measures, those which can directly affect the main issue – the living standards of individual agricultural producers who represent 90% of the population – depend on what the consumer countries can do to guarantee them a market at satisfactory and stable prices.

It must not be forgotten that in some years the backward countries may become poorer by 3000 to 4000 million dollars, a sum roughly equal to all the aid they receive. Eighty per cent of the loss is due to the chronic weakening of raw material prices and the impossibility of finding markets for them. That is the main problem for us to tackle. When we say so, everybody agrees; but when we suggest solutions there is less enthusiasm. For then the world aid concept comes to the fore and we are told: "You have a number of associated countries. Be careful. If you give them certain advantages, you may tempt them to overproduce and neglect their efforts to improve future productive capacity; furthermore you will be discriminating against countries to which you do not offer the same guarantees".

I have something to say, Gentlemen, to rebut both these objections. The danger of encouraging overproduction by giving certain market and price guarantees to producers is a weighty argument to which careful attention must be paid. However, when we explain this danger to the developing countries, they have a fairly easy reply: if it is really the free play of supply and demand which is to fix the selling price of agricultural products, why is this axiom not applied at present by any advanced country in the world? In fact, I do not know of a single country in America, Europe nor even in the Communist sphere in which agricultural prices are governed by the operation of supply and demand and I should be glad if anyone could show me a model country where this is the case. Then the Africans say: why do you apply this rule, which you regard as the golden rule, so strictly to tropical products, whereas none of you think of applying it to your own products? And we are at a loss for an answer.

The second objection concerning discrimination gives me an opportunity to lay a ghost which has haunted "well informed opinion" since the European Economic Community came into being and this business of introducing a common external tariff first arose.

It is said that the introduction of the common external tariff will disrupt the flow of world trade. I would like to quote a few simple but conclusive figures and I will go immediately to the heart of the matter by mentioning the case of coffee, which was in fact the subject of the universal protest. The common external tariff for coffee will first mean a lower rate of duty for two countries, France and Germany. I remind you that the common external tariff when fully applied will be 16%. However, France, whose rate used to be 20%, is at present charging 18% before going down to 16%, and Germany, where it was 20%, is already down to 16%. For these two countries, which are the leading European consumers, there has already been a reduction and there will be another one. It is true, on the other hand, that in the Benelux countries, where no duty is at present levied, the rate will rise gradually from 0 to 16%. Similarly in Italy, where the customs duty is a little over 10%, the introduction of the common external tariff will mean a slightly increased rate of duty. But if we balance out reductions and increases for the six EEC countries, we find that the net result will be to increase preference on the European market by an amount corresponding to a levy of only 6 to 7 million dollars. Have producers in the non-member countries really any grounds for complaint?

I should point out, moreover, that the production of all the countries associated with the Community represents something like 9% of exportable world production and that if, by an unbelievable stroke of luck, an unhoped-for commercial success, the associated countries were able in the next four years to increase their sales within the Community by 40 000 tons, they would be enormously pleased. And 40 000 tons – set against a total world trade of 2 600 million tons, or Brazilian exports of about 1 million tons – represent ten times less than the difference between one exportable crop and another.

What is even more true, Gentlemen – and I come to another delicate matter, but we are here to talk frankly – is that this whole question of tariff preference is trifling compared with action on prices and therefore on patterns of imports, if we consider the level of the consumer taxes which some countries apply to these products. I will again mention the 1960 figures for they are very striking. In a sporting spirit, I will begin with France. French taxation on coffee stands at 40% of the import price of the product and brings in 60 million dollars a year; in Italy the proportion is 140% and the yield 100 million dollars; in Germany the corresponding figures are 85% and 170 million dollars. Thus the three richest countries in the Community levy 330 million dollars yearly on the back of the wretched producer. The repercussions of these taxes on prices are so great that customs duties under the common external tariff are absolutely insignificant by comparison.

Therefore, Gentlemen, the crux of the matter is neither the tariff nor the protests; it lies elsewhere. Are we to think that an improvement of the lot of the developing countries should be attained gradually in a definite order? If so, that means regionalization. Although I am not a mathematician, I could almost say that the product of efficacity multiplied by the area is constant, and this applies, moreover, to meetings and international organizations. It is therefore beyond doubt that progress of this kind is easier to achieve within a Community more solidly constructed from the economic point of view. The search for such progress is less risky in a well-defined framework of this kind than over a much wider area.

This, Gentlemen, brings me to my conclusion. What is the real problem of aid to developing countries? What is the problem we must solve? It is the problem of applying aid which will enable these countries to build up stable and balanced economies within a satisfactorily solid and harmonious world context. Naturally this aid can assume diverse forms; it must take the form of financial aid; it must include the commercial aid which I have just alluded. It must perhaps more than anything else be educational aid, for nothing will be achieved in this field if we do not train their élites to lead the way towards that balanced economy which is the prime condition for success in the whole venture of advancing the development of the new countries.

So we may think of such aid in a world setting. Moreover, in certain cases, like that of raw materials, it must be organized in such a setting. But the operation will be easier if it is done in stages, and I think that for many reasons the right approach is to make an initial, more specialized, effort with those countries which are close to us.

Gentlemen, on many occasions I have heard the political problem raised in this connection. We must not attach, or even have it said that we attach, political strings to the aid we offer. These countries would not accept any such suggestion not because they are turned in other directions, but because they are wholly occupied, quite rightly, with the difficult problems they have to solve, and do not want to have their attention diverted by these secondary considerations. President Sekou Touré recently said: "I know neither East nor West, I know only rich countries and poor countries". I think that was a shrewd remark; it goes right to the heart of the problem.

Gentlemen, this problem is clear. You know that at the present time 85% of the world's wealth is in the hands of 18% of its population. There is every indication that by 1970 or thereabouts these figures will be 90% and 8%. Can that lead to anything but final disaster? Everyone is alive to this issue, but we must realize that there is no answer to the situation without sacrifices on the part of the rich. These sacrifices may be of different kinds: the taxpayer may have to contribute to help the developing countries; the consumer may be prepared to pay a little more for what these countries sell him: the producer may have to resign himself to the underdeveloped countries industrializing and becoming his competitors. But mere acquiescence in the idea of improving the developing countries will never be sufficient to bring such improvement about. The truth is that our countries must accept the idea of sacrifices with all their unpleasant consequences. This is why I am glad of this opportunity to give you the Commission's views, and also to urge this truth upon the members of this distinguished and politically influential audience, so that parliaments and governments may realize it and those in responsible positions in your countries may abandon certain traditions and firmly entrenched principles. For if we cling to these outdated and dangerous ideas we will lead the world to catastrophe and civilization to its death.

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