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No. 13/1978

June 19, 1978

FOR IMMEDIATE RELEASE
CHECK AGAINST DELIVERY

LUNCHEON ADDRESS BY WILHELM HAFERKAMP, VICE-PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES ON THE INTERNATIONAL CONFERENCE ON TRADE & INVESTMENT IN WASHINGTON, JUNE 19, 1978

CHANGES IN THE INTERNATIONAL ECONOMIC SCENE: THE CHALLENGE FOR THE EIGHTIES

Less than ten years ago in Europe a book became famous. It was written by Jean-Jacques Servan-Schreiber. The title was: "Le Defi Americain" - The American Challenge.

It expressed the fear that Europe would become totally dominated by American multinationals and their capacity to innovate.

Today, that picture appears no longer to be valid:

- European industry has caught up with American technology even in sophisticated fields as nuclear and aeronautics,

• the stream of investment is no longer going in one direction, from the US to Europe. It has become a two-way street, with European direct investment in the USA reaching almost half the amount of American -- direct -- investment in Europe.

Major European multinationals are setting up plants of their own in North America, or they buy American subsidiaries, just as American multinationals have been doing extensively in the sixties in Europe. Thus the trend which Servan-Schreiber considered as dangerously inescapable has been halted and even reversed. (Still some people in Europe speak and write as if all these developments had not taken place.)

II

It is good to bear in mind such past experience when looking at the great challenge that we are facing today: a secular change in the patterns of world economy. In the past ten years economic growth of developing countries has been twice as fast as that of industrialized countries (6.4 per cent per annum compared to less than 3 per cent per annum).

Similarly, exports of developing countries have been growing substantially faster than those of industrialized countries. These developments are not only the results of the quintupling of the oil price since the end of 1973.

It is not only the oil countries which are assuming a more important place in the world economy. There are also countries like Brazil, Korea, India, Ivory Coast and others that have developed a remarkable industrial potential.

Today some 35 countries in the developing world with about half a billion people have reached a gross national product equal to more than half of that of the nine EC member countries! Fundamentally this means that developing countries and more particularly those with a higher income are becoming an increasingly important factor in the world economy.

They are no longer that "quantite negligeable" in economic terms which they represented in the fifties. Today, their share in the Western world's gross national product is three times higher than it was in the early fifties (16 per cent compared to only 5 per cent!).

The rising importance of LDC's is being felt especially in two respects:

• They purchase increasing quantities of technology and equipment from the Western industrial nations,

• they increasingly export to our markets simple manufactures like shoes, textiles, clothing, electric appliances, steel, ships and simple engineering products.

We cannot only sell capital equipment to developing countries in order to keep our economies running. We must also enable developing countries to sell their products in our markets. Not just oil, coffee, iron ore or cotton, but also and increasingly processed food, processed metals and manufactures. Otherwise they will be unable to service and refund their foreign debts.

Developing countries have done surprisingly well in this respect. Today manufactures represent one third of total exports from non-oil developing countries. In a few years the oil countries will appear in the world markets as major exporters of products like fertilizers, refinery and petro-chemical products, aluminum, steel.

III

It would be a fatal mistake to see only the competition side of this development. In a way, developing countries have been a kind of life-saver for capital goods industries of the industrialized nations. Indeed, these would have been shaken as much as some traditional industries like textiles and steel, if developing countries and more particularly the oil countries had not embarked upon gigantic industrialization programs, if they had not decided to improve their economic infrastructure with the help of European, Japanese and American contractors. A major supplier of chemical and metallurgical plants reported recently that OECD countries amounted to no more than 30 per cent of its order book!

It is essential to understand that industrialization in the countries of the third world is for us a very important motor to create demand:

- for investment goods and products of our commodity industries,
- for our abilities in science and technology,
- for our capacities in planning and organization, and our managerial skills.

This will create new export possibilities. And jobs. This is the road towards opening markets and intensive world trade. We have to take it and avoid the dead-end street of protectionism.

To move ahead in this direction requires that we all, including the developing world, and especially the newly-industrializing countries -- the NIC's -- are conscious of our shared responsibility to make sure that this great process will benefit everyone, and to avoid politically unbearable consequences of change. -- Change must be gradual. We cannot accept an all too sudden dislocation of productive resources. We have to give our own industries a chance to adjust, we have to avoid social havoc.

But such "adjustment assistance" must not lead to permanent protection and isolation. This would be the safest way to lose efficiency and imperil our economic and industrial survival. Whenever we need temporary recourse to protection in order to smooth the adjustment process, international rules and procedures will have to be respected.

In a world of economic interdependence, we must more carefully weigh the effects of our own safeguard measures in whatever form they may be taken on the other members of the international community. It is the job of GATT, OECD and other international institutions to see to it that international rules are respected. They need therefore our full support.

We in Europe think that the MTN should provide the opportunity for all GATT contracting parties, and in particular all industrialized countries to apply the same rules.

As you know, in 1947, the entry into force of the General Agreement on Tariffs and Trade was accompanied by a Protocol of Provisional Application which allows the existing legislations to continue even if they were in contradiction with the GATT. Now, 30 years after the beginning of GATT, we think that it is time to put an end to that Protocol and to agree on the difinitive application of the GATT.

Such a move would, I am sure, considerably strengthen the value and credibility of the GATT system to which the American public is no less attached than we are. I think also that it is high time for developing countries to play a greater role in the GATT. In this connection I believe that the most advanced among developing countries, whose levels of development are not very far below those of European countries such as Ireland or Portugal, should make real contributions to the negotiations and should accept, be it in a progressive fashion, the disciplines of the GATT in terms of tariff reductions or tariff bindings as well as non-tariff codes which we hope to set up.

V

We should not only accept change and see to it, that it happens within commonly accepted rules and procedures. We should also promote change. In order to buy capital goods from us, developing countries went into debt at an unprecedented rate. Some people are afraid that the debt-burden may have become too high. Fortunately, I think, developing countries were courageous enough to borrow large amounts of money in the international capital markets. By doing so they helped to avoid a major collapse in our economies.

We should facilitate further borrowing by developing countries in the international capital market if this would serve them for urgently needed improvements in infrastructure, energy supply, agriculture and manufacturing industries. In short -- helping them to develop their internal markets and demand, helps our own economies to accelerate the necessary adjustments of our industrial structures.

Essentially this requires improvements in the international guarantee system. We shall have to find agreement respecting the sovereign right of host countries to use and insert foreign investment in their economic and development policy, but protecting the investors against non-commercial risks. Therefore agreed rules are necessary to govern not only activities of foreign firms in developing countries, but also the behaviour of public authorities towards these firms. Economic policy makers and experts in international financing should explore ways and means for allowing developing countries - and especially the newly industrialised among them - to borrow more and longer-term funds in the international capital markets, while naturally seeking to avoid an expensive credit race.

VI

Change is often painful. It may be difficult to get used to the fact that the world is quickly becoming one big theatre of economic operations. In such a world there is no longer room for parochialism. No one can simply hide away and remain on the defensive. We shall face the challenge of change as we have done before. There is no alternative. We need all our knowledge, our skill and above all, imagination.

We need a great international effort in responsible cooperation, and effecient international organizations, such as GATT or IMF or the World Bank. We have great and unanswered demands in this world of ours. But we also have the means and the capacity to find a new and humane balance. That is the spirit in which we shall define and secure the foundations for world economy in the eighties - and indeed for the rest of this century.

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