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PRESS RELEASE

Summary of M. Rocherau's address to the European Parliament on 23 March 1965

Trade relations between the EEC and the AASM

M. Henri Rocherau, Member of the EEC Commission responsible for overseas development problems, addressed the European Parliament on March 23, 1965.

His theme was the role of trade in the development process. He emphasised that the special system for trade between the Common Market and the associated countries, which is embodied in the Yaoundé Convention, reflects the close links between the problems of international trade and those of economic development.

I. Following are the main points in his speech :

. The recent upsurge in world trade has been very unevenly distributed geographically. Between 1953 and 1962 exports from the industrialized countries went up by 70% but those from the developing countries by only 37%. Thus, on the world plane, there was an increase in trade between industrialized countries and a fall in commodity prices causing a decline in the capacity of the developing countries to import.

Total exports of the six 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%.

However, from the end of 1962, prices of many primary products began to recover and the trade balance of the countries of the Third World improved considerably thanks to increasing demand from the industrial countries. But 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.

II. Limitations of a policy for reorganizing world trade.

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 :

(a) The economic growth of the industrialized countries has enabled them to export finished goods with high added value per worker and for which demand is growing;

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(b) The industrialized countries have followed a policy of international specialization of production which favours the development of trade and national production (in particular, intra-Community trade expanded twice as fast as world trade between 1959 and 1962);

(c) The expansion of the developing countries' exports is impeded by the absence of industrialization and the narrowness of their national markets;

(d) The combination 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 structure and present geographical pattern of world trade are therefore largely the "resultant" of economic and institutional structures which it is difficult to change in a short time.

III. Need for industrialization of the developing countries: how this can be brought about

No adequate speed-up of economic growth in the developing countries 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.

Any speed-up in the economic growth of the developing countries presupposes diversification of their national production. Manufacturing industry orientated towards more sophisticated products would especially be likely to create rapidly expanding demand in the developing countries themselves.

These long-term objectives presuppose the fulfilment of many conditions by both the industrialized and the developing countries. The industrialized countries will have to maintain a high rate of economic growth in order to increase demand for basic materials from the developing countries. Help to the industrialization of the latter must take the form of technical assistance and appropriate capital aid. The EEC countries should abandon in favour of the developing countries certain productive capacities in traditional sectors in which the latter countries are already competitive. Such a development should not be harmful to the EEC, because it could concentrate its productive resources on the modern high productivity sectors which are beyond the reach of the new countries. Failing 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 economy 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.

The developing countries will have to apply among themselves an effective policy of economic co-operation and market unification in order to stimulate investment and promote industrial specialization and activities which complement each other.

More generally, the primary responsibility for economic progress remains with the developing countries. The AASM in particular are not so much lacking in capital as in the ability of a community to make use of its own resources and to organize the basic conditions for development.

For the AASM, many of which have not made their "economic take-off", the main tasks for the years immediately ahead will be less one of obtaining large amounts of capital than of preparing themselves to absorb more of it at later stages of their growth.

IV. Action in the shorter term

The aim here would be to increase the export earnings of the developing countries pending the transformation of their production structures. We may mention the need for a concerted policy of stabilizing commodity prices and the urgency of a policy of progressively opening industrialized markets to processed and semi-finished products from the developing countries.

Three general points can be made:

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.

   In the immediate future and even in the medium term these earnings will be rather limited. In fact, (i) demand for primary products in the industrialized countries is growing less rapidly than their national product; and (ii) the competitive capacity of the developing countries appears very limited for manufactured products.

   Furthermore, it seems hardly probable that the opening of industrial markets will by "induction" start up industries and diversify production in the developing countries.

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

   It would seem that this effect has varied by product and country since the Yaoundé Convention came into force. There are several reasons for this. The competitive price advantage may be cancelled out by higher profit margins for exporters or price reductions by their competitors in non-associated countries. Consumer habits and tastes and brand monopolies also play an important role in the decision to purchase. Similarly, the existence of tariff quotas for non-member countries cuts into the preference enjoyed by the associated countries.

   In any case the effects of the preference system need to be followed up by broader trade promotion measures taken jointly by the Member States and the AASM.

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3. The third point concerns the trade deficit of the AASM.

In itself the trade balance has only limited significance, since a deficit on trade in goods can be financed by a favourable balance of capital movements. What matters in the last analysis is the capacity of the developing countries to finance from the net inflow of external capital the imports needed for economic progress. It is therefore the volume of this net inflow of investment capital which in the end determines the acceptable trade deficit.

The slackening of public and private capital movements towards Africa seems to be more disturbing, and it would be advisable to afford guarantees to such capital.
