The Community and the North-South Dialogue

European File

'Economic crisis' is simply a cliché hiding the massive industrial reorganization that is bringing the interests of the USA, Japan, Europe and other industrialized countries into conflict. In a free world economy – which alone can guarantee the spread of growth and technology – the competitiveness of the various partners depends on a number of factors. Chief amongst them is their capacity to increase productivity, modernize their industrial infrastructure, adapt to the industrialization of the Third World, develop new export markets for their manufactured goods, particularly machinery and equipment, and finally adjust to increased costs. There are shortages of a number of products which are chiefly involved in North-South trade – oil, minerals and foodstuffs – and the effects of this can be felt both in terms of prices and in terms of security of supply, which in turn can threaten to aggravate local and international tensions.

The Third World holds several keys to Europe's economic and social future. By stepping up cooperation and development in fields as diverse as food, commodities, energy, industrialization, finance and trade, Europe can ensure better security of supply in raw materials, both energy-producing and other, an increase in exports, and thus creation of new jobs, and continuous modernization of industry under pressure of competition which calls for more developed goods at lower cost.

The resources needed to help the Third World help itself are to be found both in Europe itself and in the oil-producing countries, who lack a number of new technologies and who are prevented from finding safe and stable and profitable locations for their investments by the world recession.

Commission of the European Communities
Directorate-General for Information,
Rue de la Loi 200 - B-1049 Brussels

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To re-launch the world economy it is therefore in the interests of the developing countries, the oil-producing countries and the industrialized nations to reinforce North-South relations. The challenge is particularly pressing for Europe, which depends a good deal more than the USA on foreign supplies and trade. Europe has necessarily therefore to concentrate on achieving sure and stable supplies, to ease the constraints imposed by shortages of energy, foodstuffs and raw materials and encourage the development and therefore the purchasing power of the poorer nations. It must also stimulate industrial restructuring to meet competition from the Third World without unacceptable regional or social consequences, while still improving its position in relation to its major industrialized rivals.

Problems and participants in the North-South Dialogue

In December 1973, the OPEC countries decided to triple the price of their oil exports, which had been stable for a long time. The Third World realized then that it could play a major world role and become an equal partner with the industrialized nations. In April 1974, at the sixth extraordinary session of the United Nations General Assembly, the non-aligned nations demanded a new and more just world economic order. That demand, which marks the beginning of the North-South Dialogue, was reflected in all aspects of economic relations between the developed and the developing countries. The major themes in the Dialogue are as follows :

☐ raw materials: price levels and stability, increase in on-the-spot processing, improvement of trading channels. Negotiating framework: the United Nations Conference on Trade and Development (UNCTAD), the United Nations Food and Agriculture Organization (FAO), the General Agreement on Tariffs and Trade (GATT), etc.;

☐ energy: rational exploitation of fossil resources whose overall volume is limited, development of alternative energy sources; protection and recycling of financial assets earned by the exporters of energy raw materials. Negotiating framework: various summits and informal contacts;

☐ manufactured products: better access to the industrialized market for products manufactured in the Third World. Negotiating framework: GATT and UNCTAD;

☐ industrialization: international redistribution of industrial activities, transfer of technology to developing countries, role of multinationals. Negotiating framework: United Nations Industrial Development Organization (UNIDO), World Intellectual Property Organization (WIPO), UNCTAD, etc.;

☐ services: increase in the share of developing countries in maritime transport, insurance and tourism. Negotiating framework: mainly UNCTAD;

☐ agriculture and food: improvement and increase in food aid, development and diversification of farming in Third World countries. Negotiating framework: FAO, GATT, UNIDO, etc.;

- ☐ transfers of capital: increase in resources at disposal of development financing agencies, intensification of capital transfers to the Third World and particularly public development aid, alleviation of developing countries' debt (over USD 400 000 million at the end of 1980). Negotiating framework: International Monetary Fund, World Bank, UNCTAD, etc.

North-South problems are often dealt with at the UN General Assembly, as well as at major international summits such as the Paris Conferences (1975-77 and 1981) and the Mexico Summit (1981).

The European Community participates in the North-South Dialogue and speaks increasingly often on behalf of the ten Member States.

- ☐ The North-South Dialogue fits into the Community's development policy for Third World countries (Lomé Convention, Mediterranean Agreements, aid to non-associated countries, etc.).[1]

- ☐ The Community countries have a common customs tariff and common trade policy; in these fields the Community constitutes a unique grouping *vis-à-vis* the rest of the world.

- ☐ The existence of agricultural and energy policies makes it logical for the Community to deal with food and energy problems within the framework of the North-South Dialogue.

- ☐ The Community has specific financial and food-aid programmes which complete and form part of national programmes.

- ☐ To help stimulate economic growth without distorting competition, the Community countries have an interest in meeting together the problems posed by the new international division of labour. In addition, European countries gain in weight and in credibility in the eyes of both their industrialized and developing partners when they are seen to be united on the world stage.

When the North-South Dialogue resumed in 1981, the European Commission defined a number of priorities.

Energy

Europe depends far more than the USA on the Third World for its energy supplies. The European Community imports more than 50% of its energy needs. During the first six months of 1980, the oil bill alone accounted for some 60% of the value of all Community imports from the Third World. Logically enough, the Community Member States have launched programmes aimed at reducing their dependence by stepping up energy savings and encouraging the development of coal, nuclear and alternative energy

[1] See *European file* No 6/81: 'Community aid to the Third World: the Lomé Convention'.

sources.[1] But many of these programmes require substantial investments on a scale that those in power are not always willing to agree to, firstly because they are so costly and secondly because at a time of sluggish economic growth their return seems a long way off. Europe therefore risks remaining for too long dependent on other countries for energy supplies, with a level of oil consumption higher than that which would really be in the interests of either consumers or producers. The latter are seeing their fossil reserves dwindle at a rapid rate while the return on their investments in the world is diminished by the economic crisis. The financial situation in the developing countries, which are having to import oil at higher and higher prices, is becoming catastrophic and this is not without repercussions on the development of trade with industrialized countries which sell equipment. Given this clear interdependence of interests, an attitude of cooperation on all sides is required to assure:

- ☐ an evolution of supply, demand and therefore of prices of energy which is compatible with the requirements of world economic growth; from this stems the need for a concerted effort to use energy rationally and to develop alternative renewable and non-renewable sources;

- ☐ security of supply to countries without their own energy resources, and the development of Third World energy sources financed both by the industrialized and oil-producing countries through a new energy affiliate of the World Bank;

- ☐ protection of the oil producers' assets so that a solution can be found to the problems posed by the existence of substantial financial surpluses;

- ☐ better access for oil-producing countries to the technology and markets in the North to enable them to diversify the bases of their economies;

- ☐ the conditions for an international analysis and permanent consultation on all energy problems.

Financial aspects

During the 1980s, the non-oil-producing countries will have very considerable financial needs. They will have both to maintain their normal investments and launch new programmes aimed at reducing their dependence on oil. Financial transfers from the rich countries are therefore more indispensable than ever. Without them, economic growth in the Third World will be checked and this in turn would have intolerable social effects, delay structural changes required by the oil situation and reduce Europe's own growth through the drop in exports of equipment and services. This is why the European Commission believes it necessary to:

[1] See *European file* No 2/81: 'Energy objectives for 1990 — where does the Community stand ?'.

- ☐ maintain existing bank flows, encourage other forms of transfer (issuing of bonds and direct investments) and increase public development aid to meet the objective set by the UN of 0.7% of industrialized countries' GDP.

- ☐ strengthen the effectiveness of existing international financial institutions (IMF, World Bank) by increasing the resources at their disposal, improving their procedures and lending conditions to meet the structural deficit in a number of developing countries;

- ☐ ensure that the oil producers' financial surpluses, which are likely to be concentrated in industrialized countries, do not have a destabilizing effect, but on the contrary serve to finance investment in deficit countries, both industrialized and developing. This strengthening of financial cooperation between oil-producing and non-oil-producing developing countries could take the form of co-financing ventures in the Third World.

Food and agriculture

While the world has enough food overall to cover its needs, more than 450 million people in a number of developing countries are starving. To meet increased demand on the world market the major food suppliers (the USA, Canada, the European Community, Australia and Argentina) must step up supply while avoiding higher costs caused by rising energy prices. But the developing countries must also implement national food strategies to expand their own production. The developed countries, especially the Community can help:

- ☐ in the medium and long term by helping define and implement these strategies, by expanding research into livestock breeding and less energy-consuming farming techniques, by devoting a larger share of their financial aid to agricultural development and by reviewing the conditions governing this aid;

- ☐ in the short term, by improving the organization of world trade. National measures taken by developing countries will not have an immediate effect and, for a certain period, recourse to international trade will remain a necessity for many developing countries. To ensure Third World countries stable and reliable supplies, the European Commission feels that the world food markets, particularly for cereals, must be regulated (through new agreements, and by stocking sufficient quantities to meet developing countries' needs). The Commission also believes that a Community export policy allowing regular food sales to the Third World should be established, that food aid should be increased and channels of supply improved, and that short-term international financial aid should be set aside to offset any sudden and exceptional rise in a developing country's food bill.

Industrial restructuring and overseas trade relations

The new Third World producers have already captured a considerable share of the world market in certain industrial sectors, such as textiles. This penetration has aroused concern in industrialized countries because it is frequently seen as a cause of unemployment. In reality, experience has shown that, by exporting, a developing country gains in purchasing power and this is converted into orders for goods, equipment and services from industrialized countries. These orders create more jobs than imports from developing countries cost. The Third World is Europe's major client and more than two-fifths of Community exports of goods and equipment go to developing countries.

- The European Commission stresses the need to maintain open trade at the world level. The influx of manufactured goods from the Third World means that the Community will have to change and restructure its industry. This could be tough going in times of recession and unemployment, and transitional measures, particularly within the framework of the Multifibre Arrangement and various other textile agreements, will have to be negotiated. But in the long run, the growing interdependence of the Community and the Third World is a beneficial factor which can help Europe sustain its capacity to compete with other industrialized countries. In addition, by embarking on genuine industrial cooperation, the opening-up of Community markets to developing countries would allow each partner to share the assets and advantages of the other (technology, labour costs, availability of raw materials and energy, new markets). The Community must therefore come to think of the Third World not just as another market to be conquered but as a genuine partner in growth. The changes that such a policy of interdependence calls for should be eased by exchanges of information, consultation and increased cooperation between Europe and the developing countries.

- In the context of the North-South Dialogue, the Community has recently confirmed the generalized preferences that it grants to Third World exporters.[1] The Community will adopt codes of conduct and behaviour which will balance the obligations of each partner, ease pressure for protectionism and expand world trade and economic growth.

Commodities

Commodities have a key importance for both the developing and the industrialized countries – for the former, because they bring in some 60% of export revenue (excluding oil) and for the latter, because they are indispensable to industry (minerals, textile fibres, rubber, etc.) and to consumers (tea, cocoa, etc.). The European Community is relatively poor in raw materials and its dependence ranges to 90 or 100% for some minerals.[2] Europe gets its supplies from the developing countries and from other industrialized countries. But the slump in mining investments, brought about particularly by increased political unrest and low price returns over the last decade could in the medium term compromise the regularity of these supplies. By turning more frequently to industrialized countries for raw materials, European investors risk increasing the Community's dependence on a small number of countries that are also its chief rivals. This is why the European Commission recommends that the Community should:

[1] See *European file* No 9/81: 'Generalized preferences for the Third World'.
[2] See *European file* No 1/81: 'The raw materials challenge'.

- ☐ promote mining investments in the Third World, particularly through public financing and encourage Community industry to collaborate in the development of on-the-spot processing as the developing countries are demanding. The energy crisis has profoundly altered the comparative advantages of primary processing of minerals. A greater degree of on-the-spot processing, with the active participation of Community industry in the form of cross holdings or transfers of technology, makes sound economic sense. In addition, it increases the revenue that Third World countries earn from their commodities, it eases their financial problems and it boosts their power to purchase manufactured goods from the industrialized countries.

- ☐ assure steady and rewarding producer prices that are also fair to consumers, by means of product-by-product agreements, as the Community is currently negotiating, and also by the elimination of certain abuses (dominant positions, speculation, etc.);

- ☐ strengthen scientific and technical cooperation in the exploration and exploitation of developing countries' mineral resources;

- ☐ participate in strategies for mineral products introduced by the Arab and African countries, so as to reinforce Europe's relations with these countries, contribute to the recycling of oil producers' financial surpluses and to the development of Africa, and further safeguard raw material and energy supplies.

△

The interdependence of the developing countries and the industrialized nations — particularly the Ten — is a fact. The North-South Dialogue offers the opportunity to organize and broaden this interdependence through negotiation between equal partners on the basis of mutual interests and advantages. Regional agreements, such as the Lomé Convention, already concluded between the Community and the developing countries, have shown that it is desirable, feasible and advantageous to replace outdated relationships based on strength or force between the rich and poor nations of the world with freely negotiated rules of law. By assisting the development of the Third World, Europe is staying loyal to its mission. It can also improve its standing in the world and escape more quickly and in better shape from its current economic difficulties ■

The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

Commission of the European Communities

Information offices (countries fully or partially English speaking*)

Ireland	39 Molesworth Street, Dublin 2 – Tel. 71 22 44
United Kingdom	20 Kensington Palace Gardens, London W8 4QQ – Tel. 727 80 90 – 4 Cathedral Road, Cardiff CF1 9SG – Tel. 37 16 31 – 7 Alva Street, Edinburgh EH2 4PH – Tel. 225 20 58 – Windsor House, 9/15 Bedford Street, Belfast BT2 7 EG – Tel. 40 708
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