



**European
Community**

BACKGROUND INFORMATION

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THE RICH CAN AND SHOULD AID THE DEVELOPING WORLD

Address by Sicco L. Mansholt, President of the Commission of the European Communities, at the third United Nations Conference on Trade and Development (UNCTAD III), Santiago, Chile, April 17, 1972. This was Mr. Mansholt's first appearance before an international organization since his March 22 appointment to the Commission Presidency.

The future "Community of Ten" will have to make up its mind this fall not only about its own development but also about its relationship with the "Third World." Progress will be made at the [Common Market members and candidates'] summit meeting in October because of their growing awareness that the gap between rich and poor countries must be closed and that world problems must be attacked by improving the functioning of international organizations and decision-making methods.

Governments will also have to recognize the wishes of young people who are less and less in agreement with the traditional way of gearing economic development exclusively to the accumulation of wealth for a few and of making economic growth the prime objective of national economic policy. More and more protests are being heard in our own countries against slow progress in sharing the wealth of our world in a more equitable way. These forces will

certainly push our governments into doing more for the developing world and more quickly.

UNCTAD III is a welcome opportunity to place everyone before his own responsibilities. Let us now turn to some of the issues.

The Monetary Situation: Compensation for Poor Countries

The most natural framework to study the reform of the international monetary system is the International Monetary Fund. Adequate procedures will have to be determined here to make sure that developing countries are associated in the reform of the monetary system in the most efficient way.

What are the main conclusions to be drawn from the crisis of 1971, and what are the consequences for the developing countries?

- 0 The monetary crisis accentuates the present tendency toward stagnation of economic aid.
- 0 The crisis has increased the pressure upon commodity prices.
- 0 Most of the developing countries have undergone losses in the purchasing power of their foreign exchange reserves.

It is a normal obligation of the creditor countries to try to compensate for the unfortunate consequences of this crisis.

One way of doing so has already been subject to intensive discussions: the use of Special Drawing Rights (SDR's) to finance economic development. The Commission of the European Communities thinks that Special Drawing Rights should play an increasingly important role in the international monetary system, but it is necessary to avoid the creation of excessive additional liquidity which would run counter to sound monetary policy. At the next allocation of SDR's, a special allocation for developing countries could be envisaged to compensate their loss of purchasing power of their reserves as a result of the last monetary crisis. At a later stage, ways and means should be examined to improve the distribution of international

liquidity to support developing countries' growth efforts, particularly by reducing the effects of price instability in commodity markets.

So far, Special Drawing Rights have been created in a system where the rich countries take direct benefit. I am of the opinion that in applying the system, the poor countries' interests should receive special consideration. Of course, the use of these SDR's should not interfere with good functioning of the revised monetary system.

Special Drawing Rights cannot, however, be a panacea. They certainly cannot substitute for financial and technical assistance or for improving international trade. Neither can they substitute for measures promoting the necessary adaptation of the rich countries' production patterns to achieve a reasonable and more efficient division of labor which will enlarge the developing countries' export possibilities.

Financial Aid: A Modest Target

The second "Development Decade" strategy stipulates that official aid should reach 0.7 per cent of gross national product (GNP) by 1975. We must ask whether this is too heavy a burden for the industrial countries. Even if this growth target is achieved, the gap between the rich and the poor will be greater than it is today...Raising official development assistance from the current 0.35 per cent to 0.7 per cent of GNP would mean that only 1.5 per cent of the amount by which developed countries will grow richer during this decade has to be set aside for developing countries. Under these circumstances, it would be a shame if the target were not achieved.

Paradoxically, aid can turn against the receiving developing countries, when given on unreasonably hard terms or granted merely to compensate adverse terms of trade. This paradox may lead to an excessive debt burden which would impair economic growth. It already is unacceptable that the developing countries' public debts amount to \$60 billion and are increasing

twice as fast as export earnings. This situation, compounded by the shift towards harder terms of financial assistance, should make us want UNCTAD to pass a resolution on the minimum volume of aid and on the aid conditions acceptable for all concerned.

Commodities: Rich Must Accommodate Exports of Poor

As far as commodities are concerned, the developing countries ask for preferential treatment in the liberalization of trade and claim guaranteed market shares in developed countries for temperate zone commodities. The developing countries need better world market conditions which inevitably means economic adjustments for the importing countries. This difficult task requires political courage. We must overcome the indifference of large parts of our society, including our political leadership. We must also combat the ever present tendencies toward protectionism, a contagious evil threatening the developed and the developing worlds alike.

Remedies cannot be found merely in so-called "trade liberalization." Our prime task must be to create conditions conducive to liberalizing commercial relations. One of the most illustrative examples is perhaps agriculture. Even our Community, though liberal in outlook, still protects its farmers, who remain at the low end of the income scale. We are trying, however, to overcome this weakness with a new program to change the structure of agriculture so that protection can be reduced. We are spending up to \$5 billion on this program in the next four years. It should enlarge import opportunities for products in which developing countries are more competitive than the Community, for instance sugar, cereals, fats, and oils.

Unquestionably, both developed and developing countries should strive for better conditions in the world market, for protection against unforeseeable and sometimes irrational fluctuations. The Commission of the European Communities favors negotiations for international agreements on key commodities or groups of commodities to help stabilize markets and producers'

prices. We are willing to start negotiations, with a positive attitude toward the needs of developing countries, and to leave a larger part of our markets open to their exports.

Tariff Changes to Encourage Manufactured Imports

Concerning manufactured products, the generalized preference plan is a first and valuable step. However, additional measures will have to be taken to reach the objective of a 15 per cent yearly growth of the developing countries' manufactured exports. These measures could include modifications in tariffs to encourage developing countries to transform their primary products into manufactured goods.

Facts and figures show the extraordinary dimension of the task before us if the objectives of the second Development Decade are to be achieved. The 15 per cent growth target means that the developing countries' manufactured exports will have to quadruple by 1980, to reach \$28 billion. With this increase, the developing countries would supply only 7 per cent of the developed countries' total manufactured imports. These sales would account for only 1 per cent of the developed countries' GNP.

Anyone in a position of political responsibility must conclude that these tasks are feasible and therefore ought to be accomplished. It will take conscientious forecasting and programming as well as political courage and hard decisions.

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