



Statements and Speeches

No. 75/15

REFERENCE

INTERNATIONAL CO-OPERATION -- MORAL IMPERATIVE AND POLITICAL NECESSITY

Notes for a Speech to the Canadian Institute of International Affairs, Ottawa, May 20, 1975.

* * * * *

Until recently, international development could be discussed almost exclusively within the framework of bilateral and multilateral aid programs. True, there were a few experts, a few Cassandras, who claimed that international assistance was not working, since there could never be enough of it to finance the social and economic transformation of the three-quarters of the world that lived in poverty. True, the developing countries were not only clamouring for more aid but also asking, in UNCTAD and other arenas, for a re-vamping of international trading arrangements that would enable them to "earn their own way", so to speak, -- that is, to finance their development out of export earnings. All of us were familiar, long before the seventh special session of the United Nations, with the slogan "trade not aid".

Yet international development was still mainly discussed with reference to the aid relationship. Statistics were endlessly recomputed, as if more dollars could be wrung from figures. A call to do more invariably meant more money for international development agencies. Studies and reports tended to focus on various aspects of the aid relationship -- bilateral *versus* multilateral aid, agriculture *versus* industry, the sending of experts *versus* technical training, ways and means to relieve them of their debt burden, or to co-ordinate more effectively assistance made available to them from various sources. By and large, the contribution of donor countries to international development was still considered as a response to a moral imperative. The affluent sought to buy their peace of mind with a slice -- quite often a substantial slice -- of national budgets. The problem thus defined, only a predetermined set of questions needed to be answered. The technicians having taken their cue from the moralists, vital issues of development were thrown out with the bath-water of aid.

What has changed recently is that, while remaining a moral imperative, international co-operation in the field of development has become a political necessity. The persistence of acute economic disparities in the world, the lack of effective and visible progress to

reduce them, now appear quite obviously, in my view, as a threat to international stability and a recurrent source of tensions and conflicts. You are no doubt aware of the strains placed upon the United Nations during the last session by some of the initiatives and tactics of the so-called new majority from the Third World. You are also aware that the sudden and very considerable increase in the price of oil decreed less than two years ago by OPEC countries has been a source of acute economic difficulties for the rest of the world -- developing as well as developed. I cite these examples not to blame this or that group of countries; indeed, I think that very little would be achieved by "passing the buck" and distributing the blame. But these two sets of events well illustrate my point. The countries of the Third World sought to advance their political interests in the United Nations through questionable means; but they did so because they felt that all other avenues were blocked. Similarly, the OPEC countries raised the price of their oil much too suddenly; but they did so in an international economic environment where inflation had been rampant for years with little being done to check it, and where there existed no effective framework for negotiations between producers and consumers.

The fact that history never quite repeats itself should not prevent us from learning what we can from those recent events. If we are really sincere when we say that we do not like cartels because they are not the most effective means to maintain a balanced and equitable economic relationship between producers and consumers of raw materials, then we should use our imagination and determination to forge better instruments. Similarly, if we are really serious when we claim that Third World countries are endangering the network of international institutions by attempting to achieve through them purposes for which they are not suited, then we should seek more actively, in co-operation with them, arrangements that would suit these new purposes.

The interdependence of all nations has become the cliché that graces after-dinner speeches such as this one. Yet we are faced today with the hard realities of such interdependence. OECD countries can no more attempt to resolve collectively the problems of the industrialized world than the OPEC countries can resolve those of the oil-producing world; and similarly for the wheat-producing world, the iron-ore-producing world, the coffee- or cocoa-producing world. Canada, like all other countries, is part of all these worlds, as consumer or producer, and often as both. This is why the Government has undertaken a comprehensive review of its economic relations with developing countries; and, needless to say, this review must take into account Canada's changing relationship with other developed areas of the world, such as the United States, Europe and Japan.

This review goes much beyond the activities of the Canadian International Development Agency, for which we are now framing a new set of operational guidelines for the next five years. It encompasses commercial policy -- both the modalities of our participation in the multilateral trade negotiations now going on in Geneva and the instrumentalities of our bilateral trade with developing countries. It encompasses also our approach to international commodity agreements, the ways and means by which Canadian technology is made available to developing countries, the framework within which Canadian enterprise can participate in the industrialization of the Third World. We are seeking, of course, arrangements that will be beneficial to developing countries; but we are also seeking those arrangements that will be the least costly in terms of Canadian interests. For, if we are really to abandon our exclusive reliance on the aid relationship to accelerate international development, then a greater element of mutuality must gradually be introduced into our overall relationship with developing countries. We are asked to open more liberally our markets to the manufactured products of the Third World; but, if we do so, I think it would be reasonable to expect developing countries to keep in mind the textile workers in Quebec, the small assembly plants in the Maritimes, the farmers in the Prairies. We are asked to ensure that commodity producers in the Third World receive fair prices for their exports; but, if we do so, I think it would be reasonable to expect them to recognize that our economic well-being also depends heavily on the export of primary commodities. And, if developing countries want us to take account of their interests as consumers of wheat, say, then perhaps they should keep in mind that Canadians are heavy consumers of sugar, coffee and other tropical products.

You may ask: Why should they do so? Are they not incomparably poorer than we are? Are we not rich enough, developed enough, both to assist the developing world and to look after our own interests?

In the abstract, there may be some merit in that line of reasoning; but in the real world, it leads nowhere. No Government of Canada could alter its economic policies in favour of developing countries unless it were supported by the Canadian electorate; and the Canadian electorate is made up of workers and farmers from Quebec, the Maritimes, the Prairies and other regions. These workers will not support policies that would deprive them of their jobs overnight; but I believe they would support adjustments in the Canadian economy that would gradually make room for the manufactured products of the Third World, gradually improve their export earnings from raw materials, and gradually develop in those Canadian regions that would be affected new industries that might better reflect the country's fundamental trade advantages and whose products could be exported in

return to developing countries.

What will be the outcome of the review now under way? Quite frankly, I do not know. The Interdepartmental Committee we have set up for this purpose has been meeting for only a few months; its preliminary working papers are not yet completed. But I know that the extent to which we shall be able to adjust our economic policies to the new realities of international development will depend on a great many factors. First, it will depend upon the state of the world economy, since a resumption of growth in the world would stimulate exports and production in Canada and enable the Canadian economy to adjust more easily to a new trading pattern, more favourable to developing countries. Secondly, it will depend upon how successful we shall be in curbing inflation while maintaining the domestic rate of growth in Canada -- so that the efforts of my colleague, the Minister of Finance, in negotiating a program of voluntary restraints with the various sectors of the Canadian economy have a direct bearing upon our ability to meet the demands of the Third World. Thirdly, it will depend upon how successful we shall be in persuading other industrialized countries to follow suit. For we live, after all, in a competitive world; and adjustments that might be easily bearable were they to be made simultaneously in the United States, Europe and Japan would become unbearable if Canada were to be the only country to undertake them. It will depend, finally, on a lot of other factors: the ability of developing countries to leave slogans aside and to deal with practical issues; their willingness not to interject into every discussion on economic affairs extremely difficult, and hardly related, political issues such as the Middle East conflict; and the skill, flexibility and imagination that politicians and technicians from all countries will be able to muster.

But certainly one can imagine a different world economic environment, in which international development would proceed at a faster pace and in the right places. In such an environment, the industrialized countries would have become the "arsenal" of world development, through the conversion of their less-efficient consumer-goods industries into supply bases for agricultural development and industrialization programs in the Third World. The investment patterns in the industrialized regions would gradually have shifted towards capital-goods industries, producing the industrial machinery and equipment that Asia, Africa and Latin America would absorb in huge quantities. The countries of the developing continents could then afford to purchase such machinery and equipment, with the substantially-increased earnings they would derive from exports of commodities and manufactured goods to the "old" industrialized countries. Access to the markets of these countries, and perhaps to those of other developing countries, would have improved gradually, so that

appropriate industrial conversion plans would have been implemented in the affected regions. Quebec workers might then be manufacturing rice-cultivation machines for Bangladesh, instead of textiles; Maritime industries might be supplying mass-produced pumps for the Sahel irrigation network and fish-processing plants for the West African coast; Prairie manufacturers might have become suppliers of agricultural inputs -- from tractors to fertilizers -- for much of the Indian subcontinent.

The development plans of numerous developing countries would have become self-financing, following the negotiation of international commodity agreements that would establish stable and profitable prices for raw materials and agricultural products. Stockpiling and proper planning would avoid gluts or shortages of agricultural products, in spite of the occasional crop failure; while adequate conservation measures, combined with sustained exploitation and research, would stabilize the supply and demand for minerals.

International financial institutions would operate in such a manner as to facilitate international investment under secure conditions in developing countries, so that countries with balance-of-payments surpluses -- particularly OPEC countries -- would be able to finance massively and profitably the industrialization of the Third World. Appropriate national and, if necessary, international mechanisms would regulate the activities of transnational corporations. These mechanisms would ensure, among other things, that the financial and personnel practices of these corporations were beneficial to host countries, that taxation, local reinvestment and profit-repatriation regulations provided a stable base for investment, and that nationalization of assets took place in accordance with recognized procedures. With the assistance of "old" industrialized countries, the Third World would begin the long, slow process of building up its own technological base; while the existing R & D capacities of developed countries would be increasingly devoted to resolving the technical problems faced by developing societies.

One can always dream, you will say! But I challenge anyone to show that the "new international economic order" I have projected into the future is not entirely feasible, technically and economically -- given time, a lot of hard work and the will to bring it about. I should go further, and claim that a gradual shift of Canadian policies in that direction would be fully compatible with most of our other national goals. I should even contend that the achievement of some of these goals, such as trade diversification and regional development, might be greatly facilitated. Eastern Quebec and the Atlantic Provinces, after all, are much closer to Africa and Latin America than is southwestern Ontario; so that these less-developed

regions would gain a locational advantage for industry, should Canadian trade patterns shift towards these overseas markets. Similarly, the Western Provinces would undoubtedly benefit from the expansion of our markets in Asia.

In conclusion, I should like to emphasize that, irrespective of the new trade and financial arrangements that the international community might be able to implement in coming years, there will always be a considerable need for development assistance. Even the best of arrangements will never fit adequately the requirements and conditions peculiar to each country; and we cannot expect the economic benefits from such arrangements to be distributed equitably among all developing countries. Oil, for example, is and will remain a more valuable product than iron ore or cocoa; the bargaining power of some commodity-producers will always be greater than that of others because some resources are concentrated in fewer countries; and, of course, there are quite a number of places in this world with few resources in relation to the population they must sustain, whose development, consequently, will require substantially more outside capital.

So, no matter what transformations occur in the world economy, the wealthier countries will have to maintain development-assistance programs. It may not be the answer to the problems of the Third World, but it is certainly an essential component of the development equation. In fact, I should compare the function of international aid to that of equalization payments and other federal grants within the Canadian framework; it seeks to ensure that, in the long run, none of the peoples in the community of nations will be forced, for lack of means, to live below the minimum standard set for human decency.

In this respect, I should say that I have been most concerned recently by the stagnating levels of development assistance in many traditional donor countries and by the cuts that economic difficulties have forced some donors to practise in their aid budgets. These alarming developments, unfortunately, buttress the point I made earlier -- that economic interdependence is a reality from which there is no escape. The balance-of-payments difficulties of one group of countries, which have caused them to reduce their financial assistance to a second group of countries, resulted less from domestic mismanagement of their economy than from a fourfold increase in the price of energy imposed by a third group of countries! And the downward spiral can go on: less development assistance will mean fewer imports by developing countries; fewer imports will mean a smaller output of manufactured goods by industrialized countries; less output of manufactured goods will mean fewer imports of raw

materials from developing countries; and so on.

It is urgent that we cut through this vicious circle everywhere possible, if we wish to restore the rate of growth of the world economy at a high but sustainable level. I should suggest, for example, that donor countries, for their part, undertake to maintain at the very least the real value of their development-assistance budgets, which, in present inflationary conditions, would necessitate a nominal increase of over 10 per cent a year in most countries. I should point out that the impact of stagnating assistance from traditional donors has been somewhat cushioned by the entry into the breach of OPEC countries. Whatever may be said of oil-producing countries, the contributions they have made to the Third World cannot be denied. Already, for example, several Arab countries have allocated to development assistance a larger proportion of their gross national product than the target of 1 per cent suggested by the United Nations. This is a welcome development, which indicates that, whatever new economic order may emerge in the future, there will be a sharing of the burden as well as a sharing of the wealth.

S/C