

The European Community and the Third World



European File

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15/87
October 1987

Despite the progress achieved in certain Third-World countries in the past 20 years, 3 000 million human beings have an annual income that is lower than the monthly income of people in industrialized countries. In many cases it is no greater than our weekly income. Underdevelopment is essentially a rift that divides the world in two. Its characteristics are well known: malnutrition, illiteracy, unemployment, illness, epidemics. The number of children suffering from serious nutritional deficiency could grow from 400 million to 600 million in the next 10 to 20 years.¹

Dealing with underdevelopment: why cooperate?

The principal causes of underdevelopment include:

- Limited or underexploited natural resources. With a few exceptions, the countries of the Third World have not got the resources that would enable them first to satisfy their own needs, then to export the surplus in order to obtain foreign currency and buy the products they lack. The raw materials in which Africa is potentially so rich are largely unexploited: of the 1 500 million invested annually in mineral prospection worldwide, barely 50 million is spent in Africa. In the food sector, the Third World's cereal imports grew from 25 million to 80 million tonnes between 1960 and 1980 and could be more than 200 million by the year 2000. The reasons include population growth (which is tending to slow down but remains higher in many places than growth in agricultural output), policies of maintaining artificially low food prices which favour town dwellers and discourage local production and climatic disasters (droughts, floods etc.) which can wipe out several years' work in a few days. As a consequence of such disasters and, in some cases, of unsuitable techniques for stock-rearing and cultivation, the natural environment is gradually being ruined in a number of places: witness the ceaseless advance of the southern Sahara desert.

- The structure of the world economy. Most countries of the southern hemisphere have won their political independence, but they still operate under an economic order created by and for the rich countries. One Third-World political leader commented: 'In 1976 we had to sell 4 tonnes of cocoa to buy a tractor; in 1982 it took 7.6 tonnes'. It is a fact that the price of many primary products fell by more than half between the 1950s and the 1980s. Such a worsening of the terms of trade causes an imbalance between imports and exports, a reduction in purchasing power and a deterioration in the financial situation of poor countries.

¹ This file replaces our No 9/85.

To survive, these countries have gone heavily into debt, but the slowing of imports by the northern hemisphere, as a result of the recession, has made the interest-rate burden even more difficult to bear.

The countries of the Third World are seeking a number of improvements:

- For raw materials: price indexation, stabilization of export earnings, processing in country of origin rather than in developed countries.
- Agriculture: development and diversification of production according to local needs.
- Industrial development: redeployment of international industrial activity, encouragement of private investment and technology transfers, the opening of wealthy countries' markets to manufactured goods from the Third World.
- Aid from rich countries: an increase in its volume, a reduction in the enormous public debt of poor countries, protection against inflation.

Faced with the difficulties and demands of the Third World, the European Community cannot fail to act. How can we accept that 3 000 million people are hungry? This moral imperative remains paramount, but European aid to the Third World is justified for other reasons too.

- If nothing is done to narrow the gulf between rich and poor it is bound, eventually, to lead to a violent confrontation. Should that happen, Europe could have more to lose than most.
- The Community has a direct economic interest in assisting the Third World, on which it depends far more than other industrial powers.
 - Energy dependence, first of all: Europe imports nearly half of its energy needs. Nine out of every ten tonnes of oil comes from the southern hemisphere. Europe imports 65% of its uranium from Africa. The efforts the Community countries have made to save energy and to find new energy sources will reduce this dependence; they will not eliminate it.
 - Dependence for raw materials. For a range of products – rubber, copper, coffee etc. – which underpin the economic and everyday life of Europeans, dependence on the Third World is more than 70%.
 - The economic upheaval experienced by industrialized countries forces them to find new markets for their exports. Clearly the southern hemisphere has those markets and offers one of the hopes for a new period of growth. The Third World is the Community's best customer: in 1985 it took 34% of Community exports, the United States took 23% and eastern Europe 8%. Third World markets are of particular value to the Community in that they take mainly finished goods. According to the latest figures available, about

40% of our sales are made up of machinery and transport equipment. A similar percentage consists of chemical and manufactured goods. On the other hand, these three categories account for only 28% of European imports from the southern hemisphere. As a result, despite the serious problems affecting some of its industries (textiles, footwear, etc.), the Community has a positive balance of trade in finished products with the Third World, amounting to more than 27 000 million ECU in the first six months of 1986.¹

The impoverishment and indebtedness of the Third World, together with the poor economic climate and protectionist tendencies in the northern hemisphere, are causing a slackening of trade which, if it continues, threatens to undermine the joint economic development which the interdependence of the industrialized and developing worlds demands. Nothing could be more disastrous. In order to relaunch the European economy, the Third World must be helped to boost its purchasing power by being given a market for its exports and increasing development aid. In both these areas the Community is already one of the Third World's leading partners. It provides a market for a quarter of Third-World exports and, bilateral contributions by Member States included, in 1985 it gave 0.42% of its gross domestic product in public development aid (compared to 0.29% given by Japan, 0.26% by the USSR and 0.24% by the United States). The target set by the United Nations is 0.7%.

Alongside its Member States, the European Community has an important role to play in development cooperation. The Common Customs Tariff imposed by Member States on imports from the rest of the world makes the Community a single unit in the eyes of other countries. Such matters as reductions in customs duty for Third-World countries can be decided only at Community level.

The Community's own efforts in the development field — its financial aid represents about 13% of the combined efforts of Member States — do not simply duplicate what the member countries are doing. The Community tries instead to supplement and coordinate national aid. This helps Member States to present a united front in major international negotiations on development, such as the Euro-Arab and North-South dialogues. The Community often speaks on behalf of its Member States at meetings of this kind. National policies on aid to the Third World are also being ever more closely coordinated.

Global policy

For historical reasons, but also because of their special problems, African, Caribbean and Pacific countries are accorded particular importance in European Community development aid policy. There has, however, been a balancing-out of the Community's efforts. Even though 60% of Community Third-World aid still goes to those

¹ 1 ECU (European currency unit) = about £ 0.7, Ir£ 0.8 or US\$ 1.1 (at exchange rates current on 2 September 1987).

areas, India has become the single largest beneficiary. The Community has gradually developed a cooperation policy for the whole of the Third World. The main instruments of this policy are:

- Generalized preferences.* The Community was the first great industrial power to implement (in 1971) a recommendation by the United Nations Conference on Trade and Development (Unctad) to assist Third-World industrialization through special customs concessions. All developing countries can export their industrial products to the Community free of customs duties. Some 300 processed agricultural products have also been given zero or reduced tariffs. Volume limits have had to be set for some industrial products, but they do not apply to the least-developed countries, which can also export more than 650 agricultural products duty-free to the Community. Even more favourable preferential trade arrangements negotiated with Mediterranean, African, Caribbean and Pacific countries are described further on. In total, nine-tenths of products exported by the Third World enter the Community free of duty.

- Compensation for loss of export earnings.* Fluctuations in international exchange rates can upset the economies of poor countries. Having developed compensatory mechanisms for African, Caribbean and Pacific countries, the Community has decided to create a similar instrument for the other least-developed countries of the Third World.

- Food aid.* The Community sends foodstuffs to countries that request help in coping with serious food shortages. In 1986 7.2 million tonnes of cereals and 121 400 tonnes of milk products were supplied. The total value of this aid, taking account of transport costs and the difference between European and world prices, was 412 million ECU.

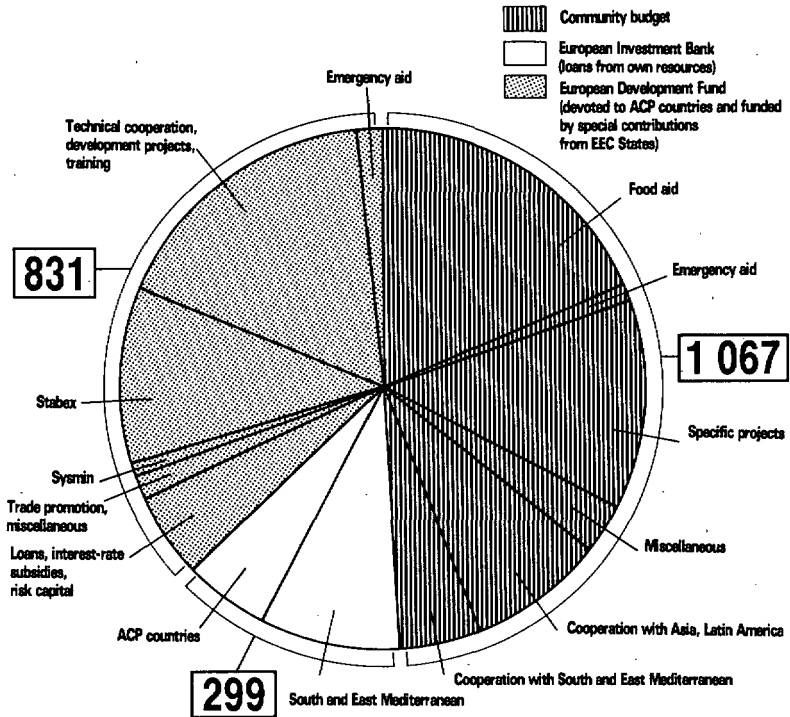
- Emergency aid.* In 1986 the Community gave 17 million ECU in aid to countries stricken by natural disasters and other crises, such as influxes of refugees. Also, in response to the drought and famine that have ravaged the Sahel, Ethiopia and other African countries, the Community and its Member States have taken concerted action to fight hunger and launched a plan for economic regeneration which mobilized nearly 1 000 million ECU for 11 countries.

- Aid to non-governmental organizations.* Because of the leading role which these groups often play in development, the Community has increased its aid to their projects from 2.5 million ECU in 1976 to 50 million in 1986.

- Financial and technical cooperation.* The Community supports many development projects in Africa, the Caribbean and the Pacific, in Mediterranean countries and

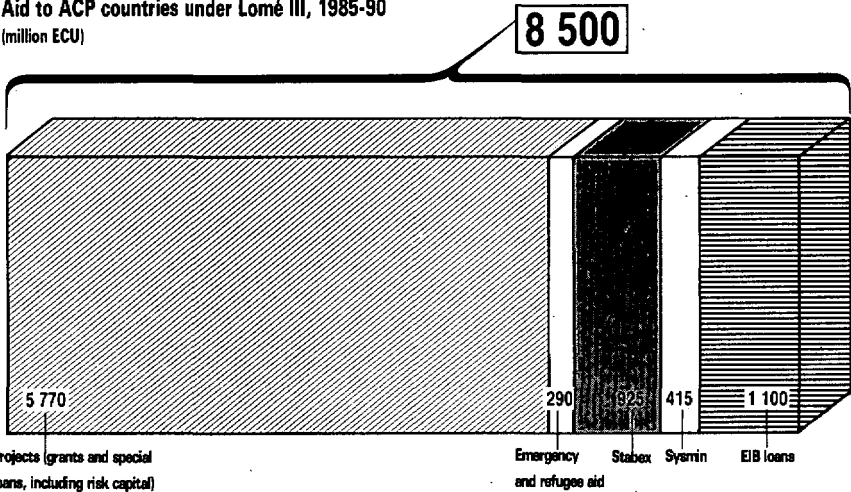
Community financial aid to the Third World

(payments in million ECU - 1986)



Aid to ACP countries under Lomé III, 1985-90

(million ECU)



in other countries of the Third World. More details are given below, but the overall figure will give a general idea: this aid is worth more than 1 000 million ECU a year.

The Lomé Convention

In December 1984, 66 African, Caribbean and Pacific countries (the 'ACP countries') signed a new convention with the Community, to run for five years (1985-90). This extends, strengthens and makes more effective the cooperation enshrined in the first two Lomé Conventions of 1975 and 1979 and, before that, by the Yaoundé Conventions which linked the Community to a score of independent African countries from 1963 onwards.

The originality of this cooperation resides in four main elements:

- The stability of cooperation links that have a legal basis in a contract freely negotiated between equal, sovereign but interdependent partners for their mutual interest.
- The establishment between two regional groups of a single contract which excludes any economic or ideological discrimination and takes account of the special problems of the least-developed countries, enclaves and islands. The third Convention spells out the objectives: a more autonomous development, serving the interests of the people of the developing countries and respecting human rights.
- Common institutions which allow a permanent dialogue: a joint assembly of members of the European Parliament and ACP representatives, an ACP-EEC Council of Ministers and a Committee of Ambassadors.
- The global approach covering all the means of cooperation: financial aid, trade preferences, stabilization of export earnings, agricultural and industrial cooperation, etc. For the first time a group of industrialized countries has established an integrated policy towards a group of countries in the Third World.

The main features of the Lomé Convention are:

- Trade cooperation.* Almost all (99.5%) of the products of the ACP countries, which conduct about 40% of their trade with the Community, have duty-free access to Community markets. No reciprocal concessions have been demanded. The Community has gradually extended the list of duty-free products and has even granted concessions for products that compete with its own agricultural output. Purchasing and price guarantees have, for instance, been given for the traditional sugar exports of ACP countries.
- Stabilization of export earnings.* The most original feature of the Convention is 'Stabex', which guarantees a minimum revenue to ACP countries from their

exports of 48 basic commodities to the Community. These exports make up a significant proportion of the earnings of ACP States. Under this 'insurance against lean years' the Community gives loans or, for the least-developed countries, grants as compensation for any significant fall in earnings below the average of previous years. A similar system, 'Sysmin', provides finance for the upkeep or reconstruction of mining installations, even for their complete restructuring when the mining potential of ACP countries is seriously threatened by unforeseen circumstances.

- *Financial and technical cooperation.* Including Stabex and Sysmin, the Community as such will devote 8 500 million ECU between 1985 and 1990 to its financial and technical cooperation with the ACP countries. The European Development Fund (EDF) contributes to the financing of the development of ACP countries, on the basis of concerted programmes, not case-by-case to individual projects as in the past. The main sectors aided are: rural development, industrialization, economic infrastructure and social development. In addition the EDF finances regional cooperation initiatives, projects to assist small and medium-sized enterprises (SMEs) and 'micro-projects' of local interest. It also takes an interest in restoring natural equilibria: fighting drought and desertification, etc. The European Investment Bank (EIB) assists industry, agricultural processing, mining, tourism and production infrastructure (telecommunications, ports, water supply, etc.) including energy. A sizeable share of this aid goes to SMEs through global loans to development banks. The EIB lends from its own resources (essentially the money it borrows on capital markets). Its loans are accompanied by an interest rebate from the EDF, so that the effective interest rate is kept between 5% and 8%. Using EDF resources, the EIB also advances risk capital which can take the form of loans, subscription of capital or financing of feasibility studies or of rehabilitation schemes for industries and infrastructures.
- *Agricultural, industrial, cultural and social cooperation.* A joint centre for industrial development and a technical centre for agricultural cooperation have been set up. The emphasis in the third Convention is on rural and agricultural development, the need for better planning to achieve food self-sufficiency, Community support for food strategies and, where necessary, agreements to supply agricultural produce. The Convention also spells out the principles for industrial cooperation and the right measures for encouraging private investment. It provides for wider cooperation in energy, maritime transport and fisheries and for the extension of cooperation into new social and cultural fields: availing of the human resources and cultural identity of ACP countries, taking account of the problems of their students and migrants workers in Europe and so on.

Mediterranean policy

The Community has entered into commercial, industrial, technical and financial cooperation agreements with most of the countries to the south and east of the Mediterranean: Algeria, Morocco, Tunisia, Egypt, Jordan, Libya, Syria and Israel. These agreements were concluded between 1975 and 1977 as part of a global policy

for the Mediterranean. They strengthened the cooperation already established between the Community and those countries during the 1960s. They have just been revised in order to maintain traditional trade flows following the entry of Spain and Portugal to the Community. The Mediterranean countries are granted duty-free access to the Community for their industrial products, various customs concessions for agricultural produce and EIB loans and grants which totalled about 1 618 million ECU for the period 1987-90.

Agreements with Latin America and Asia

With many Asian and Latin American countries the Community has concluded agreements that provide for a wide range of cooperation in various fields: commercial, economic, industrial, etc.

- Asia.* Cooperation agreements have been signed with the countries of the Indian sub-continent (Bangladesh, India, Pakistan and Sri Lanka), with the Asean countries (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand), with China and with North Yemen. An agreement with the Gulf countries is under consideration.
- Latin America.* Agreements have been signed with Brazil, Mexico, Uruguay, the Andean Pact countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) and the countries of the Central American isthmus (Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador). The Community – which has long supported moves towards regional integration in Latin America – now has Spain and Portugal as members and is strengthening its links with Latin American countries.

The agreements with Asian and Latin American countries are 'non-preferential': they do not provide for specific tariff concessions such as those negotiated with African or Mediterranean countries. The Asian and Latin American countries do however benefit from generalized preferences. The Community also has agreements with some of them covering exports of textiles and craft products. India, Bangladesh and Sri Lanka have also been given special treatment for their exports of sugar, jute and cocoa products. In addition, the Community gives Latin American countries food aid and emergency aid and supports many agricultural and other projects. This technical and financial aid is still limited but has grown rapidly: from 45 million ECU in 1977 to 185 million in 1986.

New approaches for Community action

Since the start of the 1980s the crisis in development has led the Community to re-examine the thrust of its policy. How can it be made more effective? How, for example, can one break the vicious circle whereby food aid, however indispensable in emergencies, eventually changes consumption habits, discourages local production and worsens the very problem it is supposed to solve? How can one prevent

industrial and infrastructural projects – which are technically well designed – from functioning simply as shop-windows for the donor's know-how and making no real contribution to the well-being of the mass of the population or to locally-generated initiatives?

To cope with these problems, the Community has adopted the following main lines of approach:

- As far as methods are concerned, external aid and the efforts of the beneficiary countries themselves must be better coordinated as regards both means and ends, implementation and principles, following a policy that is clearly defined and systematically adhered to. The Community, which respects the sovereignty of its Third-World partners, wishes to enter into a dialogue with them on the policies to be pursued. It wants to finance global development programmes rather than isolated projects.
- In regards to aims, priority must be given to anything that makes for a more self-sustaining development process. Rural development is evidently a key factor in the struggle to eliminate the underlying causes of world hunger. Food aid must be redeployed in order to contribute to rural development: this has already been done in India, where a multiannual programme to supply European dairy products has enabled a local processing industry to be set up, which is in turn encouraging local production. At the same time the Community must encourage industrial investment, keep its market open to imports from the Third World, increase its support for safeguarding the environment in the developing countries and help them to build up training and research facilities.

These new approaches are already embodied in the third Lomé Convention, which came fully into force on 1 May 1986. Their influence can also be seen in a restructuring of food aid. A whole range of measures has gradually been implemented, to see that this aid is better integrated with other activities in the field of development cooperation. Except in emergencies, food aid is now to be part of concerted development programmes and can, in principle, be provided under multiannual supply contracts. Special assistance has been given to some African countries – Kenya, Mali, Rwanda and Zambia – which have accepted the principle of coordination of external aid and of their own efforts. They are being helped to implement food strategies, drawn up by the beneficiary countries themselves and coherently pursuing the aim of rural development and, in the long run, that of self-sufficiency.

The Community is also conscious of its role and responsibilities in the world economy and wishes to develop industrial cooperation that will serve the interests of all concerned. As well as the measures implemented under the Lomé Convention there should be other mechanisms to benefit the countries of Asia, Latin America, the Middle East and the Mediterranean – many of which are more developed than the ACP countries. The essential purpose is to stimulate cooperation among businesses, particularly small and medium-sized ones, by making more information available on

investment possibilities, by developing scientific cooperation and by improving the training of managers and technicians. The Community could also support the harmonization of industrial standards and some investment of risk capital.

The development of the Third World is a long haul. It is also a vital task for the Community to pursue. By increasing its commitment and spelling out the ways and means of implementing it, the Community intends to make a contribution worthy of the great issues at stake ■

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