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THE EEC'S TRADE RELATIONS WITH THE DEVELOPING COUNTRIES

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THE EEC'S TRADE RELATIONS WITH THE DEVELOPING COUNTRIES

INTRODUCTION

THE BACKGROUND TO NORTH-SOUTH TRADE TODAY

This study deals with the European Community's trade with the developing countries. The focus is on imports because the aim is to see how effectively the EEC is using trade policy to promote the economic development of the Third World. The assumption that foreign trade is a key factor in economic growth is one of the constants of development policy since the early 1960s.

The General Assembly of the U.N. adopted in 1961 a resolution entitled "International trade as the primary instrument of economic development", and the first U.N. Conference on Trade and Development, which gave birth to UNCTAD, was held in 1964. The Final Act of the Conference called on the international community "to ensure that all countries - regardless of size, of wealth, of economic and social system - enjoy the benefits of international trade for their economic and social progress."

UNCTAD

The first United Nations Conference on Trade and Development (UNCTAD), held in 1964, was significant for three reasons: (1) it was attended by 120 countries - i.e. virtually the entire U.N. membership at that time; (2) it was the first to deal with every aspect of international trade specifically from the viewpoint of developing countries and in the context of their development needs and (3) it witnessed the emergence of the Group of 77, formed by the developing countries from Asia, Africa and Latin America.

The 1964 Conference set the pattern for subsequent conferences, which are held roughly every 4 years. It also created the institutional machinery which enables UNCTAD to function between conferences. The UNCTAD Secretariat, based in Geneva, has been closely identified with the developing countries from the very beginning. Several of the key proposals submitted by the Group of 77 to the full Conference were drawn up initially by the Secretariat - which, incidentally, has always been headed by a Third World personality.

Dismissed by most Western nations as a debating forum (its resolutions are not binding) UNCTAD still has the active support of developing countries, who see it as both a negotiating forum and a focal point for discussions - and decisions - on the network of inter-related economic problems facing them as they struggle to catch up with the industrialized nations.

The developing countries have been the first to insist on "Trade, not aid", although it could be argued that aid - financial, technical, managerial - is equally important for economic development.

But what is the contribution of international trade to economic development? Paradoxically, no precise answer is possible. The experience of the last decade suggests that development, of which growth is a component, is much too complex a process to allow of simple answers. There is a strong correlation, however, between economic growth (expressed as an increase in the Gross Domestic Product) and the level of exports: most developing countries with a rapidly expanding GDP can point to high growth rates for their exports.

This has led many economists to advocate export-led growth for the developing countries. Export earnings are the main source of finance for the imports of machinery, fertilizers, transport equipment and other inputs a modern economy requires. According to a senior World Bank official, Shahid Javed Burki, "The potential of delivering real resources through trade is much greater than through the transfer of capital through concessional aid or commercial loans."

Developing countries need, therefore, to raise the level of their exports as much as possible. But most of them, and this is especially true of the 65 countries linked to the EEC through the successive Lomé Conventions, are heavily dependent on exports of one or two commodities at most. As commodity prices are highly volatile, a fall in export earnings can have an unfavourable effect on the economy as a whole.

As agriculture is the principal economic activity for most Third World countries, it would be logical for each country to develop exports of the agricultural products it has neglected so far. But there is only a limited scope for such diversification. The more effective form of diversification by far is into manufactures, based on locally produced agricultural raw materials to begin with.

Developing countries would then not only escape the unfavourable effects of volatile commodity prices but also obtain better prices for their exports, which would now include a growing proportion of products with considerably higher added value. And, most important of all perhaps, they would have set their economies on the road to industrialization.

If this strategy is to succeed, the industrialized countries must keep their markets open to developing countries' exports of both raw materials and manufactures. But while they have long favoured imports of raw materials and tropical products, the industrialized countries have been reluctant to encourage imports of manufactured goods. This is clear from the way their import duties are structured even today: the more finished the product the higher the import duty. In the EEC there is no import duty on raw cotton but one of 15% on shirts.

Even so, all industrialized countries have recognized the need to help the Third World to industrialize. In the early 1970s they conceded the demand for a system of tariff preferences, under which Third World exports of manufactured products would be exempt from import duties. The EEC was the first to introduce a generalized system of preferences in 1971 for a 10-year period, which was extended in 1981 for a further 10 years.

It is not enough to grant tariff preferences, however. The industrialized countries must also be prepared to accept the reorganization of their own industries, and in particular the modernization of industries which are still labour-intensive. There is a danger, otherwise, that the benefits under any generalized system of preferences will be whittled down, or even withdrawn.

It probably is equally important that developing countries keep their own frontiers open to imports, subject to (1) the need to raise revenues and (2) protect infant industries. By exposing domestic producers to international competition the governments of developing countries can ensure that production costs are held down, thus making it possible for their export industries to remain competitive on international markets.

Increased participation by the developing countries in world trade would benefit the industrialized countries also. Much of their export earnings would be spent on imports of the inputs needed both to generate additional earnings and to help raise living standards. Greater international trade, Constantine Machalopoulos, a director of the World Bank, has noted, encourages competition, improves allocation of resources and fosters development.

Such, in broad outline, is the argument for increased trade between the industrialized and developing countries. Some economists have referred to the strategy described above as a "win-win" strategy because it benefits both rich and poor countries. And yet from the very beginning the debates in UNCTAD, the one U.N. institution specifically set up to promote Third World development through trade, have been characterized by confrontation between developed and developing countries. Relations between them have been more constructive in GATT but many developing countries believe it has proved largely ineffective in halting protectionist moves by the industrialized countries, especially when they are directed against Third World exports.

GATT

GATT - the General Agreement on Tariffs and Trade - is both a multilateral treaty embodying the ground rules for international trade and a forum in which countries can discuss their trade problems, settle disputes and negotiate the removal of barriers to their external trade. Its first principle is that trade must be conducted on the basis of non-discrimination - all members are on an equal basis, whatever the volume of their trade. This cardinal principle of GATT is embodied in the most-favoured-nation clause.

GATT came into force in 1948, following the breakdown of attempts to set up an international trade organization (a role which UNCTAD would like to play). GATT membership today stands at 90, while a further 31 countries apply its rules on a de facto basis. Members (contracting parties in GATT jargon) include several East European countries but neither the Soviet Union nor China (as yet). Even so, the 90 countries together account for more than 4/5 of world trade.

In successive multilateral trade negotiations in GATT the rules have been refined and obstacles to trade progressively reduced. (However, the Multifibres Arrangement, regulating imports from the developing countries, was also negotiated in GATT). The most comprehensive of these trade negotiations, the Tokyo Round, lasted six years and produced important tariff reductions as well as a new series of agreements covering non-tariff measures. A fresh round, which eventually would cover trade in services also, is currently under discussion in Geneva, where the GATT Secretariat is based.

Developing countries now account for more than 2/3 of GATT membership. For many years they have been able to apply certain of its rules with considerable flexibility. Since 1965 their interests are covered by a chapter - Part IV - on trade and development.

Part of the explanation for the "neglect" by the industrialized countries of the trade problems of developing countries is to be found in their relative shares in world trade. In 1963 the developing countries accounted for some 20% of world exports; in 1983 their share stood at 25%. However, if the oil-exporting countries are excluded their share would remain unchanged at 15%. From the point of view of the industrialized countries the international community is devoting more time and resources to helping the Third World solve its trade problems than is justified by its share of world trade.

International trade has always generated a great deal of controversy, of course. It was a source of hostility between nations more often than of cooperation long before the North-South dialogue began. It is not simply journalistic exaggeration, therefore, which turns trade disputes into trade wars. The 17th century French statesman Colbert described trade as the source of finance and "finance is the vital nerve of war." Not surprisingly, therefore, a trade surplus is viewed with satisfaction and a deficit with concern, even alarm, and can lead countries to adopt beggar-my-neighbour policies.

The fact is that economic behaviour is rooted in self-interest. The economic policy of any government, whether of the left or the right, is conceived in a national context and is aimed at furthering the national interest. It would be absurd to expect so important an area of economic policy as foreign trade to be free of nationalism. The British economist, Joan Robinson, has noted that classical economists favoured free trade because it was good for Britain. Trade theory, therefore, may be little more than the intellectual justification for policies rooted in nationalism.

Economic issues can arouse strong feelings in the general public, especially if they relate to the cost of living or jobs. In industrialized countries foreign trade is identified in the public mind, especially in times of economic crisis, with loss of jobs. (It is much more difficult to get people to accept the opposite, that international trade creates jobs.) Moreover, it is easier to restrict imports than to ban the introduction of new technology, which is largely responsible for the continued high level of unemployment in the EEC.

The reactions to foreign trade can be equally emotive in developing countries. Many of them firmly believe that trade was used during the colonial period to plunder them of their natural resources. If they now regard trade as a key factor in their economic development, it is only on condition that the rules are rewritten to favour the Third World. Their commitment to a new international economic order therefore is emotional as much as it is economic or political.

It is necessary to keep this aspect of North-South trade relations in mind when reading the rest of this paper. The measured prose of official speeches can be a cloak for strong, often contradictory, emotions. Even calls for international solidarity cannot always be taken at face value.

PART ONE: THE PATTERN OF NORTH-SOUTH TRADE

THE NORTH - THE MAJOR TRADING POWERS

In the following pages we shall be looking at the trade of the three major components of the "North" - the United States, Japan and the 10-nation EEC. The European Community, however, is unlike any other regional grouping as regards its objectives, institutions and economic importance. But it is also an unfinished construction. A few words about the EEC itself may therefore be helpful.

UNDERSTANDING THE EEC

The Community is a legal entity, distinct from its 10 member states. It has sole responsibility for trade policy and the operation of the 10-nation customs union. It represents the member states in GATT, for example. Trade agreements are negotiated by the European Commission, on the basis of negotiating directives drawn up by the Council of Ministers on a proposal from the Commission. The agreements are approved by the Council, once the European Parliament has been consulted.

Responsibility for running the Community is shared, therefore, among its three major institutions: the Council, the Commission and Parliament. Each of the three may be said to represent, and ultimately defend, a specific viewpoint: the Council that of the member governments, the Commission that of the Community as such and Parliament that of its citizens. A fourth institution, the Court of Justice, deals with cases of alleged violation of Community law.

The economic inspiration for the EEC was the vision of a large, single market within which there would be freedom of movement for both goods and the means to produce them, including science and technology. But the blueprint had to be adjusted from the very beginning to take account of the diversity of national interests.

The onset of the recession in the early 1970s saw the member states less willing to put Community interests before their own. The fact that the first enlargement virtually coincided with the first oil shock only added to the problem of balancing often divergent national interests.

In the absence of a strong economic recovery, both within the EEC and world-wide, the entry of Spain and Portugal could only heighten tensions within the Community. The consequences for world trade of a Community which is divided and unsure of itself is bound to be unfavourable.

The following Table shows the place the EEC, the United States and Japan occupy in world trade:

TABLE I

How the world's major trading powers compared in 1983

(in billion U.S. dollars and %)

	EEC-10++	United States	Japan
Total trade (exports + imports)	563	463	272
Exports as % of world exports	15	11	8
as % of GDP	12	6	13
Per capita exports ($)	989	837	1,235

++ The figures relate to extra-EEC trade.

Source: SOEC, Luxembourg, and Gatt, International Trade, 1983/84

Given the membership of the EEC, the place it occupies in world trade is what one would expect. With two exceptions all the member states have very high per capita incomes. The EEC is also more dependent on foreign trade than the U.S., the other trading entity of comparable size. The extra-EEC exports of Germany, for example, represent 13% of its GDP. For the U.K. the corresponding figure is 12%, for France 9% and Belgium 18%.

The European Community is a major trading partner for developing countries across the globe, largely for historic reasons. Half its member states are former colonial powers, who had built up an extensive trading relationship with their overseas possessions. They were based on the import of raw materials, including tropical products, and the export of manufactures.

It is natural to assume that the EEC is the largest market for the developing countries. But how does it compare with other industrialized markets, notably the American and Japanese?

THE MAJOR TRADING POWERS AS A MARKET FOR THE DEVELOPING COUNTRIES

The following Table, based on the trade statistics of the developing countries themselves, shows their exports to the major trading powers in the North as a percentage of their total exports.

TABLE II

Exports of developing countries to the major industrial markets, 1982 and 1983

(as a percentage of their total exports)

	EEC		United States		Japan		Comecon+	
	1982	1983	1982	1983	1982	1983	1982	1983
All developing countries	25	22	17	17	14	13	4	5
Oil exporting countries	29	25	12	11	20	21	1	1
Non-oil exporting countries	22	21	20	22	9	9	7	8
Africa°	36	30	17	14	7	5	1	2
Asia°	14	14	17	21	16	15	3	3
Western hemisphere°	20	19	35	39	5	6	4	5

+ includes Cuba.

° excludes oil exporting countries.

Source: IMF, Direction of Trade.

The Table confirms our earlier assumption that the EEC takes the largest share of developing countries' exports. As one might expect, given the Community's dependence on imported oil and the current level of oil prices, it takes a higher proportion of the exports of the oil producing developing countries than of those without oil. In this the EEC is like Japan and unlike the United States and the Soviet Union.

The Table also suggests that developing countries tend to export to the industrial markets within their region. Thus around one-third of African exports are to the EEC and a similar proportion of Latin American exports are to the U.S. Asian exports tend to go in roughly equal proportions to the U.S. and Japan, which is hardly surprising, given that several of the most dynamic Asian exporters are on the rim of the Pacific ocean. The fact that the EEC is the major market for Africa has been put forward at various times in support of the concept of Eurafrica as a natural trading partnership.

The changes between 1982 and 1983 can be ignored for the present, partly because a 2-year period hardly allows any firm conclusions to be reached, but also because all the 1983 statistics, on which the above Table is based, are provisional. Calculations over a longer time-period would show a fall in the proportion of developing-country exports going to the industrialized countries. Thus in the early 1970s the EEC's share in the exports of developing countries was around one-third; it is now down to one-quarter. The U.S. share has also declined, although that of Japan has remained more or less stable.

These declines reflect to some extent a growth in South-South trade. But they may also reflect long-term structural changes in the pattern of North-South trade, changes which have been masked by the rise in oil prices. It is necessary, therefore, to look at the contents of developing country exports to the major industrial markets.

THE IMPORTS OF THE MAJOR TRADING POWERS FROM THE SOUTH

The following Table shows the imports of the major industrial nations from the developing countries:

TABLE III

Imports of the Major Trading Powers from the Developing Countries, 1973 and 1982-83

(in billion U.S. dollars)

	EEC*			United States			Japan			Comecon		
	1973	1982	1983	1973	1982	1983	1973	1982	1983	1973	1982	1983
Primary products, of which:	34.1	104.0	85.8	13.8	65.2	60.0	13.9	69.2	63.3	4.3	18.1	17.5
Food	9.2	17.6	17.2	5.4	10.6	11.1	2.1	5.0	5.4	2.0	...	...
Raw materials	3.2	4.0	4.2	0.7	1.3	1.4	2.5	3.6	3.3	1.2	...	...
Ores, other minerals	1.8	3.5	3.2	0.8	1.4	1.2	1.8	3.6	3.4	0.3	...	...
Fuels	17.8	76.4	58.4	6.5	50.2	44.0	6.7	55.4	49.5	0.5	4.9	4.5
Manufactures of which:	5.3	21.1	21.6	7.8	37.0	56.7	2.2	6.2	6.2	0.8	3.5	3.1
Semi-mfrs.+	1.1	2.5	2.6	1.0	2.7	3.7	0.6	0.8	0.8	0.1	...	...
Engineering products, of which:	0.9	6.2	6.7	2.6	15.6	20.4	0.3	1.1	1.3	0.1	...	...
Household appliances	0.3	1.7	1.6	0.8	3.3	4.1	0.1	0.2	0.2	0.01	...	...
Textiles and clothing	2.2	7.4	6.9	2.2	8.3	9.7	1.1	1.9	1.5	0.4	...	...
Other consumer products	0.5	2.9	3.0	1.4	8.1	9.0	0.2	0.8	0.8	0.1	...	...
TOTAL IMPORTS	39.5	125.8	108.1	22.0	103.7	107.4	16.2	75.9	69.9	5.1	21.5	20.6

* EEC-9 for 1973. ... not available

\+ Excluding iron and steel, chemicals

Source: GATT, International Trade, 1982/83 and 1983/84.

The EEC emerges once again as the biggest importer of Third World goods, although in 1983 its imports were only marginally higher than those of the United States, after being 20% higher in 1982. (Their per capita imports in 1983 were: EEC - $394; United States - $459 and Japan - $586.) Fuels, essentially oil and gas, account for a substantial part of the imports of all three groups of market economies. But the proportion varies from one group to another. Thus in 1983 some 54% of the Community's imports from the developing countries consisted of fuels as against 41% for the U.S. and as much as 70% for Japan.

The importance of manufacturing industry for the economic development of the Third World was mentioned earlier. As long as the emphasis is on import substitution, most of the output is aimed at the domestic market. But in the case of export-led growth much of it is intended for overseas markets, especially for countries with small domestic markets. Developing countries as a group in fact maintain that they should account for a certain percentage of world trade in manufactures, and the UNIDO Conference held in Lima in 1975 set this figure at 25%, to be reached by the year 2000.

As the above Table shows, the U.S. is the biggest market for manufactures from developing countries. In 1983 its imports were substantially larger than those of the EEC. That year manufactures in fact accounted for as much as 53% of total U.S. imports from the Third World, as compared to 20% for the EEC, 16% for the Comecon and 9% for Japan. What is more, engineering products accounted for a higher proportion of U.S. imports than textiles and clothing, both in absolute terms and as a percentage of total imports of manufactures. The U.S., in other words, both imports more manufactured products from the Third World than other industrial nations and imports a wider range of such products.

HOW IMPORTANT IS THE SOUTH FOR THE MAJOR TRADING POWERS?

With total imports from developing countries of $108 billion in 1983 the EEC remained their major market in the industrial world. But what percentage of the Community's total imports, and especially of manufactures, originate in the developing countries, as compared to the other trading powers?

The ratio of imports from developing countries to total imports is shown in the following Table for the four major industrial groupings:

TABLE IV

Imports of the major trading powers from the developing countries, 1973 and 1982-83

(as a % of their total imports of the product in question)

	EEC*			United States			Japan			Comecon		
	1973	1982	1983	1973	1982	1983	1973	1982	1983	1973	1982	1983
Primary products	55	59	55	51	64	61	44	67	66	23	26	25
Food	44	48	51	52	53	53	29	30	32	23	..	..
Raw materials	29	25	27	21	24	21	38	39	39	31	..	..
Ores and other minerals	38	38	36	42	47	42	41	46	45	20	..	..
Fuels	89	71	65	70	74	73	80	84	84	17	..	..
Manufactures	13	17	17	17	25	35	23	24	22	2	4	3
Semi-mfrs.+	16	16	17	22	25	29	43	32	31	8	..	..
Engineering products	5	10	10	10	18	21	7	12	12	0.2	..	..
Household appliances	10	18	18	24	34	36	11	34	29	2	..	..
Textiles and clothing	41	49	46	55	71	71	61	55	50	12	..	..
Other consumer products	18	27	26	31	48	47	20	33	33	3	..	..
TOTAL IMPORTS	38	41	37	30	41	40	42	57	56	9	13	12

* EEC-9 for 1973. Percentages calculated on basis extra-Community trade.

\+ Excluding iron and steel, chemicals.

Source: Based on GATT, International Trade, 1982/83 and 1983/84.

If intra-EEC trade is excluded, imports from the Third World represented 37% of Community imports in 1983, as compared to 40% for the U.S., 56% for Japan and 12% for the Comecon countries. The above Table confirms what the Community has always known: that a high proportion of its imports originate in the Third World, even though Japan has an even higher ratio of imports from the developing countries (but as it is the most resource-poor of the major industrial powers, this is to be expected). What is more unexpected, perhaps, is the developing countries' share in total U.S. imports, due to its oil imports.

Table III showed the U.S. as the leading importer among industrialized countries of Third World manufactures. Table IV shows that in 1983 the developing countries supplied some 35% of its total imports, as against 17% for the EEC and 22% for Japan. Even in the case of textiles and clothing, the developing countries account for as much as 70% of total U.S. imports. Their share of EEC imports, although high, is smaller than it is in both the U.S. and Japan.

A detailed analysis both of trade flows and trade policies is needed to explain the differences mentioned above. But Table I suggests at least one explanation. If imports of oil and gas are left to one side, Africa emerges as the Community's largest supplier in the Third World, whereas Latin America followed by Asia, play this role in the case of the U.S. Africa is far less industrialized than the other two continents, however, so that its exports consist in large measure of primary products, including fuels and tropical foodstuffs. The EEC, with its fewer natural resources as compared to the U.S., is a much bigger importer of primary products, as Table III shows. Finally, and this is a point to which we shall be returning later, it may be that the Community's generalized system of preferences (GSP) is less effective in promoting imports of manufactures from the Third World, especially of products for which they are the most competitive but which are deemed "sensitive" by the EEC.

To sum up, the EEC remains the largest market for the Third World in absolute terms, followed by the U.S. and Japan, with the Comecon countries well behind them. This is the case as regards not only oil but even agricultural products, for which developing countries are a major supplier to the Community. The situation is somewhat different, however, if one looks at imports of manufactures by the major industrialized countries. The principal market for Third World manufactures is the U.S., followed by the EEC.

PART TWO: THE PATTERN OF EEC-SOUTH TRADE

THE OVERALL PICTURE, 1973-1983

The Community's prosperity rests on a number of factors, of which the most important perhaps are the skills and resourcefulness of its people. But the Community owes its high living standards also to its far-flung network of trading relations, much of it built up during colonial times. The nature of this relationship has changed considerably, of course; today some 100 developing countries are linked to the EEC through cooperation agreements of various kinds, of which the most well-known is the Lomé Convention.

Before looking at the agreements themselves one should look at the trade flows between the EEC and its trading partners in the Third World. However, it is necessary to relate these flows to the totality of the Community's international trade, so that we do not lose sight of the full picture.

The following Table contains the broad outlines of the Community's trade with both industrialized and developing countries. All amounts are shown in European Currency Units (ECUs), rather than in U.S. dollars because the ECU, being a basket unit, based on a certain quantity of each Community currency, reflects more accurately trends in the EEC's foreign trade.

TABLE V

The external trade of the EEC, 1973, 1977 and 1981-83

(in billion ECU and %)

	1973		1977		1981		1982		1983	
	ECU	%	ECU	%	ECU	%	ECU	%	ECU	%
EXPORTS										
Destination										
Total (Extra-EEC)	78.8	100	160.4	100	266.7	100	286.5	100	303.0	100
Industrialized market economies	48.4	61	83.1	52	134.8	50	149.5	52	162.9	54
Developing countries	23.8	30	63.8	40	114.5	43	119.7	42	119.7	40
Eastern Europe	6.6	9	13.5	8	17.3	7	17.3	6	20.4	6
IMPORTS										
Origin										
Total (Extra-EEC)	84.8	100	172.9	100	303.8	100	321.5	100	329.5	100
Industrialized market economies	45.8	54	82.9	48	149.9	49	163.6	51	175.6	53
Developing countries	33.0	39	77.3	45	131.6	43	131.5	41	125.5	38
Eastern Europe	6.1	7	12.6	7	22.3	7	26.3	8	28.4	9
TRADE BALANCE										
Overall	-6.0		-12.5		-37.1		-35.0		-26.5	
With industrialized market economies	2.6		0.2		-15.1		-14.1		-12.7	
With developing countries	-9.2		-13.5		-17.1		-11.8		- 5.8	
With Eastern Europe	0.5		0.9		- 5.0		- 9.0		- 8.0	

Source: SOEC, Luxembourg

The Third World collectively is an important trading partner for the Community, almost as important as the group of industrialized market economies. In recent years the developing countries account for roughly 40% of the EEC's imports and exports. Of course there are many of them, so that with the exception of a few oil exporting countries, individual developing countries provide only a minuscule proportion of the Community's imports.

The following Table shows the EEC's imports from developing countries, which have been grouped more or less according to how they are perceived by the Community as trading partners. The Table shows imports from the developing countries in 1973 and 1981 to 1983.

TABLE VI

EEC Imports from Developing Countries, 1973 and 1981-83

(in billion ECU and %)

	1973		1981		1982		1983	
	ECU	%	ECU	%	ECU	%	ECU	%
Total	33.0	100	131.6	100	131.5	100	124.9	100
of which:								
ACP (63)	6.2	19	16.7	13	18.2	14	19.8	16
Latin America	5.9	18	18.7	14	20.7	16	22.4	18
Mediterranean Basin++	5.6	17	22.7	17	27.0	21	27.3	22
OPEC	15.5	47	75.4	57	71.8	55	61.9	50
Asia (19)	5.4	16	20.8	16	22.5	17	25.0	20
ASEAN (5)	1.8	5	6.6	5	7.1	5	7.9	6
Far Eastern NICS°°	2.1	6	10.1	8	10.4	8	12.2	10

In brackets, number of countries in group.

++ Developing countries only, including Yugoslavia, but excluding Israel.

°° The newly industrializing countries in this group are South Korea, Singapore, Taiwan and Hong Kong.

If added up percentages will exceed 100. This is because there is a certain amount of overlapping among the various country groupings. Thus the Mediterranean Basin group includes Libya and Algeria, which are also included in OPEC. Singapore is included in both ASEAN and Far Eastern NICs.

Source: SOEC, Luxembourg.

As a group, OPEC has always been the Community's main trading partner among the developing countries, reflecting the EEC's dependence on imported oil. But its share in the EEC's total Third World imports has been declining in recent years, as a result of lower oil prices, the continued economic stagnation and the success of the Community's efforts to conserve energy. (In 1973 oil and gas represented 63% of total imports, 10 years later 50%.)

The relatively high level of imports from the ACP countries (16% of the total in 1983) owes a great deal to the presence within the group of Nigeria, another major oil-exporting country. Without Nigeria the ACP's share in EEC imports would fall to 10% in 1983. But it must be remembered that the group also includes a score of the world's least developed countries, whose contribution to ACP/EEC trade flows inevitably is very small.

A comparison of the categories "Asia" and "Far Eastern NICs" suggests that the countries most active in international trade are the NICs. During the 3-year period 1981-83 the four Far Eastern NICs accounted for nearly half the Asian exports to the Community. Their exports increased by 22% during this period, as against 16% for the remaining countries in the group (and they include India and China, on the one hand, and 4 of the 5 members of ASEAN on the other).

The importance of the oil-exporting countries and the NICs to the EEC's import trade can be measured in yet another way. In recent years 35 countries regularly account for around 85% of the Community's total imports. Nineteen of them are developing countries. In 1983 the first five among the developing countries were Saudi Arabia (7), Libya (10), Nigeria (11), Algeria (12) and Iran (13). (Their rank on the list of 35 countries is shown in brackets.) Also on the list were Iraq (19), the United Arab Emirates (21), Venezuela (22) and Kuwait (26). These nine countries accounted for some 18% of the Community's total imports from outside its frontiers in 1983.

The other leading Third World exporters include Brazil (in 14th place), Hong Kong (18), Yugoslavia (20), Taiwan (25), Egypt (27), South Korea (28), Mexico (29), China (30), India (32) and Malaysia (33). It will be seen that all are either NICs or semi-industrialized countries. These nine countries together accounted for just over 10% of the Community's extra-EEC imports in 1983. (The last two names on this list of the 35 leading exporters to the EEC are Israel and Turkey.)

The role of the oil-exporting countries, the NICs and the semi-industrialized countries in the Community's imports is reflected in the following Table, which shows imports from developing countries, broken down into the SITC product groups.

TABLE VII

EEC Imports from Developing Countries by SITC Groups, 1983

(in billion ECU)

	Agricultural products 0, 1, 4	Raw materials 2	Fuel products 3	Chemicals 5	Manufactures 6, 7, 8
Total (Extra-EEC)	34.3	30.2	97.3	16.2	128.6
Developing countries	19.2	9.6	66.1	2.0	25.3
Mediterranean Basin	1.9	1.3	20.6	0.8	9.4
OPEC	1.1	0.8	57.0	0.2	1.6
Latin America	7.9	3.0	5.3	0.3	3.4
ASEAN	2.5	1.6	0.1	0.1	3.2
ACP (63)	5.3	2.6	8.9	0.5	1.9

The above Table shows both the strength and weakness of the OPEC countries: while they provide over two-thirds of the Community's imports of oil and gas, their share in its imports of manufactures, including chemicals, is negligible as yet. A number of Mediterranean and Latin American countries are doing much better in this respect, as are countries in Asia, including India (1.3 billion ECUs in 1983) and China (1.3 billion ECUs). As a group, developing countries account for around 17% of the EEC's total imports of manufactures in recent years.

Paradoxically, they are not major suppliers of raw materials either: in 1983 they accounted for only one-third of the Community's imports from overseas. As Table VII shows, the Latin American countries accounted for nearly one-third of the developing countries' exports, followed by the ACP group. Both groups also had a major share in the Community's imports of agricultural products. But while only three countries (Brazil, Argentina and Colombia) supplied three-fourths of the total imports from Latin America, imports from the ACP countries were spread over a much larger number of suppliers.

THE NATURE OF THE EEC'S IMPORTS FROM THE SOUTH

What are the Community's main imports from the developing countries (other than oil)? And how has the composition of its imports varied in recent years?

The following Table lists the EEC's principal imports from the Third World in 1977, 1980 and 1983. They are ranked in order of importance (on the basis of 1983 imports).

TABLE VIII

Trends in the EEC's principal imports from the developing countries (excluding mineral fuels)

SITC	Value (million ECU) 1977	1980	1983	Market share (%) 1977	1980	1983	Rank 1977	1980	1983
Total, less fuels	33,487	45,089	55,741	100.0	100.0	100.0			
07 Coffee, tea, cocoa, spices	6,836	5,579	6,474	20.4	12.4	11.6	1	1	1
84 Clothing	2,613	4,116	5,222	7.8	9.1	9.4	2	2	2
05 Vegetables, fruits	2,572	3,066	3,974	7.7	6.8	7.1	3	4	3
68 Non-ferrous metals	2,028	3,324	3,100	6.1	7.4	5.6	4	3	4
28 Metalliferous ores	1,974	2,784	3,033	5.9	6.2	5.4	5	5	5
08 Animal feeds	1,504	1,685	2,894	4.5	3.7	5.2	7	7	6
65 Textiles	1,618	2,258	2,416	4.8	5.0	4.3	6	6	7
89 Misc. manfd. articles	639	1,237	1,853	1.9	2.7	3.3	13	9	8
24 Cork & wood	1,107	1,574	1,574	3.3	3.5	2.8	8	8	9
66 Non-metallic manufactures	737	872	1,373	2.2	1.9	2.5	11	12	10
77 Electrical machinery	346	760	1,335	1.0	1.7	2.4	-	16	11
76 Telecommunications equip.	543	994	1,313	1.6	2.2	2.4	15	10	12
26 Textile fibres	857	772	1,143	2.6	1.7	2.1	10	15	13
42 Fixed vegetable oils	894	975	1,091	2.7	2.2	2.0	9	11	14
03 Fish	392	628	1,000	1.2	1.4	1.8	-	17	15
01 Meat	501	-	869	1.5		1.6	-	-	16
12 Tobacco	443	569	866	1.3	1.3	1.6	-	-	17
06 Sugar	707	870	808	2.1	1.9	1.4	12	13	18
23 Crude rubber	577	775	783	1.7	1.7	1.4	14	14	19
71 Power generating machinery	-	-	740	-	-	1.3	-	-	20

\- indicates not among the first 20 imports for that year

Source: SOEC, Luxembourg

What these figures show is that the Community's imports from the Third World cover a very wide range of products, from tropical beverages and industrial raw materials to consumer goods and industrial plant. The Community, in other words, is a market for every developing country with goods for export, whatever its current level of development. It is the world's largest importer of coffee and cocoa, for example, and the second largest importer of bananas. It is also a major importer of animal feedstuffs.

For historical reasons, a number of the Community's member states have an important food processing industry based on imports of these and other tropical products and raw materials. However, the pressure of market forces and the shift in emphasis from production to marketing in the EEC has led to a steady rise in imports of products in their processed forms. In addition to its imports of cocoa beans, for example, the EEC is also the leading importer of cocoa paste, butter and powder.

THE CASE OF COCOA AND COTTON

The following Tables show the EEC's imports of cocoa beans, on the one hand, and cocoa butter on the other. Given the relative stability in the demand for cocoa, the explanation of the fluctuations, especially in the shares of individual exporting countries, must be sought in these countries.

TABLE IX

EEC Imports of Cocoa Bean (SITC 072.1)

(in million ECU)

	1977		1981		1982		1983	
Origin	ECU	%	ECU	%	ECU	%	ECU	%
World (Extra-EEC)	1,198	100	1,021	100	1,128	100	1,040	100
Ivory Coast	258	22	341	33	355	32	292	28
Nigeria	260	22	136	13	141	13	201	19
Ghana	237	20	139	14	225	20	107	10
Cameroon	131	11	157	15	189	17	180	17
Brazil	86	7	42	4	28	3	41	4

Source: SOEC, Luxembourg

TABLE X

EEC Imports of Cocoa Butter (SITC 072.32)

(in million ECU)

Origin	1977 ECU	1977 %	1981 ECU	1981 %	1982 ECU	1982 %	1983 ECU	1983 %
World (Extra-EEC)	218	100	169	100	205	100	213	100
Developing countries	191	88	146	86	180	88	187	88
Ivory Coast	20	9	22	13	26	18	25	12
Nigeria	36	16	29	17	23	11	45	21
Ghana	66	30	32	19	35	17	25	12
Cameroon	17	8	17	10	12	6	18	8
Brazil	36	17	29	17	60	29	55	26

Source: SOEC Luxembourg

That the EEC should be a major importer of clothing from the developing countries is hardly surprising; that this item should rank second is more unexpected. Equally unexpected, given the frequent accusations of protectionism levelled against the EEC's textile policy, is the growth in imports, which virtually doubled between 1977 and 1983. The EEC imports substantial quantities of textiles also; these imports ranked seventh in importance in 1983, having risen by some 50% since 1977.

While the EEC is a large-scale importer of textile fibres for its own industry, cotton producers, for example, can process their raw material locally before shipping it to the EEC. It is interesting, therefore, to compare the list of countries exporting raw cotton with those exporting finished products. The following Tables allow just this.

TABLE XI

EEC Imports of Raw Cotton (SITC 263.1)

(in million ECU)

Origin	1977 ECU	1977 %	1981 ECU	1981 %	1982 ECU	1982 %	1983 ECU	1983 %
World (Extra-EEC)	895	100	988	100	1,062	100	1,323	100
Developing countries	539	60	479	48	515	48	802	60
Egypt	38	4	75	8	84	8	141	11
Syria	51	6	15	2	11	1	79	6
Brazil	29	3	15	2	10	1	79	6
Sudan	64	7	35	4	21	2	48	4
Zimbabwe	-	-	36	4	43	4	44	3
Paraguay	22	2	24	2	40	4	40	3
Pakistan	33	4	6	1	10	1	27	2
Chad	30	3	33	3	14	1	27	2
Ivory Coast	16	2	18	2	15	2	19	1

Source: SOEC, Luxembourg

TABLE XII

EEC Imports of Woven Cotton Fabrics (SITC 652)

(in million ECU)

Origin	1977 ECU	1977 %	1981 ECU	1981 %	1982 ECU	1982 %	1983 ECU	1983 %
World (Extra-EEC)	930	100	1,051	100	1,231	100	1,349	100
Developing countries	394	42	399	38	462	38	521	39
India	83	9	71	7	42	3	49	4
Hong Kong	48	5	58	6	55	5	74	5
Pakistan	33	4	53	5	72	6	75	5
Brazil	29	3	32	3	58	5	58	4
Thailand	28	3	21	2	27	2	36	3
Egypt	10	1	13	1	16	1	20	1
Ivory Coast	8	1	14	1	15	1	18	1
Chad	-	-	1	neg.	1	neg.	1	neg.

Source: SOEC, Luxembourg neg = negligible

These Tables make clear that the developing countries have no monopoly on either the raw materials or the finished products of an industry with which they tend to be identified. The U.S. and Soviet Union together account for almost half world cotton exports, while the former is also a major textile exporter, along with Japan and several EEC countries.

Among developing countries, only Egypt may be said to have an important share of the Community market for raw cotton. This is also true as regards the market for cotton fabrics: with the exception of Hong Kong and Pakistan, most exporting countries have only a small share of it (but they are so numerous that it was necessary to limit the above Tables to the leading suppliers).

The fact is that most exporters of raw cotton are also exporting fabrics to the Community; this is true not only of major producers like Pakistan and India but also numerous smaller ones, including Peru, Colombia, Argentina, Cameroon and Tanzania. A surprising exception is the Sudan, which has no exports of cotton fabrics to the EEC, while Egyptian exports are negligible. On the other hand, a major exporter of fabrics, Hong Kong, is entirely dependent on imports of raw cotton. Its experience highlights, in fact, the role of entrepreneurs in the process of economic development.

THE EEC'S EXPORTS TO THE SOUTH

The importance of the EEC as a market for Third World exports has been amply demonstrated. In return, the developing countries take some two-fifths of the Community's exports. What is more, in the decade between 1973 and 1983 these exports rose by nearly 400% (in large part the result of determined efforts to recycle the flood of petrodollars), as compared to a rise of 237% in Community exports to the other industrial free market economies. However, what does the EEC sell in the Third World? And to whom?

TABLE XIII

EEC Exports to Developing Countries,
1973 and 1981-83
(in billion ECU)

Destinations	1973 ECU	1973 %	1981 ECU	1981 %	1982 ECU	1982 %	1983 ECU	1983 %
Total (Extra-EEC)	23.8	100	114.5	100	119.7	100	119.7	100
ACP (63)	4.5	19	11.8	10	18.7	16	15.9	13
Latin America	4.9	21	18.0	16	16.2	13	14.5	12
Mediterranean Basin	6.6	28	17.6	15	20.2	17	22.3	19
OPEC	6.7	29	53.5	47	55.6	46	52.1	43
Asia (19)	5.0	21	19.4	17	22.6	19	24.6	21
ASEAN	1.7	7	7.1	6	8.4	7	9.1	8
Far East NICs	1.7	7	6.9	6	8.3	7	9.1	8

Source: SOEC, Luxembourg.

Taken together, the oil-exporting countries are not only the Community's principal source of imports, however limited their range, but also its largest export market. The Asian countries come next, taking roughly one-fifth of the Community's exports to the Third World. Within this group, ASEAN and the Far Eastern NICs form two very dynamic sub-groups. In fact the importance of the Asian market to the Community would stand out more sharply if the two oil and gas exporting countries, Algeria and Libya, were excluded from the group of Mediterranean Basin countries. Without them, the group's share of Community exports would fall from 19% to 10% in 1983.

The ACP countries represent a relatively small market for the EEC in recent years. This no doubt is a reflection of the economic difficulties which many countries south of the Sahara currently are facing. As a market, the ACP group is dominated by a single country, Nigeria, which alone accounts for over one-third of the Community's exports to it. However, Nigeria's share in EEC exports fell slightly in 1983, as a result of the measures taken to deal with the country's balance of payments problems.

If the developing countries are an important market for the EEC it is not simply because they take two-fifths of its total exports. As the following Table shows, around 85% of the Community's exports to them consist of manufactured products - i.e. goods with high value added. What is more, the developing countries offer the only expanding market for many of these goods, whether consumer durables or industrial plant. As an Indian industrialist recently asked fellow industrialists from the EEC (at a seminar on technology transfers sponsored by the European Commission) "Which are the countries which are still building steel works, petrochemical plants, industrial factories and power stations - and will still be building them into the next century?"

TABLE XIV

EEC Exports to Developing Countries by Product Groups

(as percentage of total exports to them)

	1973	1981	1982	1983
Total exports	100	100	100	100
Primary products	15	17	16	15
Food	11	12	11	10
Manufactures	85	83	84	82
Iron and steel	6	6	5	4
Chemicals	15	11	12	13
Engineering products	50	52	54	50
Textiles and clothing	5	3	3	3
Other consumer goods	4	6	6	6

Source: Based on GATT, International Trade, 1982/83 and 1983/84.

Two dangers threaten the Community's exports to the Third World, one apparent, the other real. To take the real first. The debt burden for many developing countries is reaching unmanageable proportions. Though as a group these countries are running a surplus in their trade with the Community, many individual countries in fact have a deficit, sometimes a chronic deficit. Unfortunately it is far more difficult for developing countries to finance their deficits than it is for the Community. Hence their tendency to cut back on imports to balance their books, or to try to link imports to exports through counter-trade.

The apparent threat is that of competition from developing countries for many of the manufactured products which the EEC exports to them. It is an apparent threat because competition is the mainspring of the international trading system and recognized as such by the industrial nations and many developing countries, and certainly by the most dynamic among them.

PART THREE: THE EEC'S TRADE POLICIES TOWARD DEVELOPING COUNTRIES

In Part II we examined the level and composition of the Community's imports from the Third World in recent years. Part III is devoted to an examination of the Community's trade policies towards the developing countries. We look at the forces which have shaped these policies, at their objectives and, finally, their effectiveness.

DEVELOPMENTS IN THE 1960S

POLICIES TOWARDS FORMER COLONIES

It is significant that the 6-nation EEC was founded, like the Coal and Steel Community before it, on the assumption that an outward-looking trade policy not only raises living standards but also draws nations closer together. By establishing a Common Market the Six hoped to raise living standards more quickly and develop closer relations between the member states. During much of the negotiations over the Treaty of Rome the focus was on economic cooperation among the Six, which was seen as a means of banishing the spectre of war from Europe.

It was the French who, wanting to maintain intact their customs union with their own colonies and overseas territories, proposed that provision be made for the "overseas countries and territories" of the member states. This demand, presented toward the end of the negotiations, took the others by surprise. It was finally agreed, however, to "associate" the non-European countries and territories with the Community, in order "to promote their economic and social development" and "establish close economic relations between them and the Community as a whole." A new section, Part IV, was added to the Treaty of Rome. It set up what amounted in practice to a free trade area between the Community and the individual colonies and overseas territories of member states.

By 1962 the process of decolonization had overtaken French-speaking Africa also. As a result, Part IV was replaced in 1964 by the Yaoundé Convention of Association, which was concluded for a 5-year period between the EEC and 18 sovereign, independent African states. The tariff preferences which they had been granted under Part IV were now incorporated into a legally binding contract between the Six, on the one hand, and the Eighteen on the other. What had once been a unilateral decision of the Six was now a Treaty between sovereign states.

The concept of association (which included development aid, given through a special European Development Fund created in 1959) was the earliest and by far the most important strand in the Community's policy toward developing countries. We shall return to it later, however. Although the first Yaoundé Convention was followed by the second, signed in 1969, its renegotiation in 1973/75 took place under very different circumstances. Some 21 developing Commonwealth countries in Africa, the Caribbean and the Pacific took part in them and the outcome was the much more comprehensive Lomé Convention. At their demand the term "association" was dropped. This was a significant change in political terms and reflected the changing relationship between the EEC and the "associated" states, the ACP group, as the associated states are now commonly described. (Habits die hard, however. Even today the countries of Asia and Latin America are the "non-associated" developing countries in EEC jargon.)

TOWARD THE MEDITERRANEAN COUNTRIES

A second strand in the EEC's trade policies toward the developing countries was provided by the need for a policy toward the Mediterranean countries. Here again the starting point was France's desire to maintain its preferential trade relations with Tunisia and Morocco. But the EEC found it more difficult to define its policy toward these and the other developing Mediterranean countries. Their physical proximity to Europe, their long historical association with southern Europe, their close economic ties with the Mediterranean regions of the EEC entitled them to a special relationship with the Community. The EEC recognized this: the trade agreements concluded with Tunisia and Morocco in 1969 envisaged the creation of a free trade area. But it was only in the early 1970s that a Community policy embracing all 7 countries of the Arab Mashreq and Maghreb began to take shape; and it was not until 1976 that the first cooperation agreements with them were signed.

A discussion of these agreements must be deferred, therefore, until our examination of the development of Community policies in the 1970s.

TOWARD OTHER DEVELOPING COUNTRIES

The third strand of trade policy is not always a separate strand. If the Treaty of Rome made provisions for the Community's relations with the "overseas countries and territories", it contained no references to the rest of the Third World. Relations with the other developing countries, as with the developed, would be governed by the common commercial policy, by means of which the EEC hoped to contribute "to the progressive abolition of restrictions on international trade". The Community, in other words, envisaged the reduction of its tariffs on imports from the "non-associated" developing countries also, but in a global, multilateral context - through trade negotiations in the GATT, for example.

During the 1961/63 negotiations for Britain's entry, the EEC was compelled briefly to envisage future arrangements between the enlarged Community and the developing members of the Commonwealth. But with the collapse of these negotiations the need for such arrangements disappeared. However, through its participation in such international fora as GATT and UNCTAD the EEC was obliged to define its position on a wide range of issues raised by the Third World.

One of the most important of these, from the developing countries' point of view, was their demand for a generalized system of preferences (GSP). It was raised by the developing countries as a group during the first United Nations Conference on Trade and Development (UNCTAD) in 1964 (which witnessed the creation of the Group of 77).

The theoretical justification for the GSP was provided by the Argentinian economist Raul Prebisch in a Report which he drew up for UNCTAD I. He argued that developing countries needed to free themselves from their dependence on trade in primary products, which is characterized by slow long-term growth and price instability. To do this they had to develop their exports to the industrialized countries of manufactured goods, demand for which was stronger and which offered substantially higher export earnings.

However, Third World manufacturers could not compete successfully with producers in the industrialized countries unaided. Hence the need for a system under which Third World exporters would pay custom duties at substantially lower - i.e. preferential - rates than their competitors. The EEC, together with the other industrialized countries, accepted the need for the developing countries to industrialize; they agreed that the process of industrialization required, in its initial stages, at any rate, that the industrialized countries encourage imports of semi-manufactured and manufactured products from the Third World. But they took the view that it would be better to reduce tariffs on all such imports, whatever their origin, through multilateral negotiations. World trade would rise, benefiting both developing and developed nations.

The fact that the demand for a generalized system of preferences coincided with the start of the first major round of multilateral trade negotiations in GATT, the Kennedy Round, only added to the reluctance of the industrialized countries to consider the GSP. They felt that the tariff cutting process under way in GATT would be unfavourably affected if there were simultaneous discussions with the developing countries over the partial - or even total - suspension of tariffs on their exports to the industrialized countries. Certainly the developing countries would be strongly tempted to withdraw from the Kennedy Round and concentrate their efforts on securing the GSP.

It was almost 10 years before a system of tariff preferences was finally introduced, with the EEC taking the lead. This was not surprising, for it had played a key part in the debates in UNCTAD. The Community's own system came into force in 1971. In 1973 the U.K., Ireland and Denmark scrapped their own national systems and adopted the Community's on joining the EEC.

THE GENERALIZED SYSTEM OF PREFERENCES (GSP)

The aim of the GSP is to foster the industrialization of the developing countries by making it easier for them to export their semi-manufactured and manufactured products to the industrialized countries. Exports under the GSP enter the markets of these countries either duty-free or at lower - i.e. preferential - rates of duty. As tariffs on products of export interest to developing countries tend to be relatively high, the GSP provides Third World exporters a price advantage over exporters from industrialized countries.

Some 20 OECD countries currently grant preferences to developing countries under the GSP. The EEC was the first to do so; its scheme came into force in 1971 for a 10-year period and was extended for a further 10 years in 1980.

Product and country coverage, as well as the margin of preference, vary from one donor country to another. The EEC's scheme covers all semi-manufactured and manufactured products including textiles and clothing (Chapters 25 to 99 of the Brussels Tariff Nomenclature), as well as a large number of processed agricultural products (Chapters 1 to 24). All industrial products and over 20% of agricultural products enter duty-free; there are tariff reductions of 20% to 60% for other agricultural products.

Some 127 independent countries and 22 dependent territories of the member states are beneficiaries of the Community's scheme. Their GSP exports to the EEC were originally limited by means of global quotas and ceilings, which beneficiary countries could utilize on a first-come, first-served basis, subject to certain limits. The global quotas have now been replaced by individual quota amounts, which has strengthened the hand of exporters in their negotiations with importers.

The least developed countries enjoy additional benefits: duty-free entry for all agricultural products covered by the GSP and duty-free and quota-free entry for all industrial products, including textiles.

Some samples of preferential rates are shown below. They relate to the Community's 1984 scheme:

Product	*MFN rate of duty*	*Preferential rate*
Hand tools (CCT 82.04)	*5.1%*	*0% duty for an individual beneficiary country ceiling of ECU 7,998,100*
Woven fabrics of man-made fibres (CCT 56.07A)	*11.8%*	*0% duty for varying quantities, ranging from 5 to 1,789.1 tonnes, for each of 22 countries with whom the EEC has a textile agreement*
Cocoa powder, unsweetened (CCT 18.05)	*16%*	*9%*

DEVELOPMENTS IN THE 1970S

The First Enlargement: Providing for the Developing Commonwealth

Britain's projected entry gave fresh impetus to the debate which had already begun in the 6-nation EEC over its role in promoting economic development in the Third World. Britain presented the Community with much the same problem as France had done some 15 years before. Although Commonwealth preferences had given way to the UNCTAD-inspired Generalized System of Preferences, the U.K., no less than the independent developing members of the Commonwealth, was concerned that the enlargement of the EEC should not damage their trade interests.

The 21 developing countries in Africa, the Caribbean and the Pacific were accordingly given the opportunity to join the 18 associated states in negotiating a successor to the second Yaoundé Convention of Association. At the same time the Commonwealth Sugar Agreement was allowed to run until 1975, when it was replaced by the Sugar Protocol of the Lomé Convention and extended to cover imports from all ACP countries. As for the developing Commonwealth countries in Asia, a Joint Declaration of Intent committed the enlarged Community to examine with them "such problems as may arise in the field of trade with a view to seeking appropriate solutions."

The Lomé Conventions

The Lomé Conventions, the third of which was signed in December, 1984, represent the highwater mark of the EEC's policies toward developing countries, and the fullest expression of its belief that trade concessions are inadequate by themselves. Here we are concerned only with the trade provisions of the Conventions: two of their most innovative features (Stabex and Sysmin) come within the category of development aid. (The description of the trade provisions which follows relates mainly to the first and second Conventions, although some of the improvements under Lomé III are referred to.)

Given that the number of beneficiary countries was to be more than doubled, it would have come as no surprise had the enlarged Community expressed in 1974 a desire to reduce the duty-free access extended under the Yaoundé Convention. In fact the ACP countries have been granted free access from the very beginning for as much as 99.5% of their exports. Only products covered by the common agricultural policy have been excluded from duty-free and quota-free treatment. However, even as regards these products the ACP countries enjoy more favourable terms than other developing countries. For example, exports of beef and veal (a major item for Botswana) enter the EEC duty-free and only 10% of the variable levies are charged.

The enlarged Community also undertook to help producers of sugar, rum, bananas and rice. The Sugar Protocol, annexed to the Lomé Conventions, was concluded for an indefinite period. It provides for the supply by the ACP countries of 1,400,000 tonnes of raw sugar a year and its purchase by the EEC at a guaranteed price, which is virtually linked to the prices paid to Community producers. Under the Rum Protocol the Caribbean countries enjoy duty-free quotas for what is an important export for many of them.

An important feature of successive Lomé Conventions has been the chapter on Trade Promotion. Under its provisions the ACP countries are given both technical and financial help for a variety of purposes, including not only market research and advertising but also the training of personnel, product identification and development, participation in trade fairs and exhibitions, etc. The aim, as set out in Lomé II, is to help the ACP countries (1) derive maximum benefit from the provisions of the Convention and (2) diversify the range and increase the value and volume of their exports to the Community as well as to domestic, regional and international markets.

The ACP countries, like many others in the developing world, are major exporters of primary products. However, in a stagnant market price increases for primary commodities are likely to occur only when there are shortfalls in production, due either to natural calamities or industrial action. It therefore is in the interest of producers to process their raw materials locally, either for export or the domestic market.

A number of import-substitution industries - food processing, tobacco, textiles - were set up in some African countries before decolonization. Between 1960 and 1975 there was a fresh attempt at industrialization, this time through the public sector.

Through successive Lomé Conventions the EEC and ACP countries have recognized the pressing need to promote the industrial development of the latter. The Conventions have sought to promote "new relations of dynamic complementarity in the industrial field between the Community and the ACP states" and the "development and diversification of all types of industry in the ACP states." To reach these objectives the EEC has extended financial and technical help in the fields of industrial training, the local processing of raw materials, the transfer of technology, the development of industrial infrastructures, energy cooperation and industrial information and promotion.

The Mediterranean Agreements

The 1970s also witnessed a more dynamic approach to the countries of the Mediterranean basin. It was as if the Community had suddenly awoken to the realization that the southern Mediterranean was an extension of Europe and that its economic development was a concomitant to its own. While only too aware of the conflict of interests in agricultural production and trade, the EEC nevertheless decided at the 1972 Paris summit meeting to negotiate cooperation agreements with the Mediterranean countries, on the basis of a balanced, global approach in which trade concessions, economic cooperation and technical and financial aid would form an integrated whole.

Between 1975 and 1977 the EEC concluded cooperation agreements with the seven countries of the Mashreq and Maghreb and Israel. The agreement with Israel provided for the creation of a free trade area, thus reflecting the similarities between their economies. The other agreements, although differing in detail, were all cast in the same mould.

Their trade provisions include duty-free and, in principle, quota-free entry into the EEC for all manufactured products, except refined petroleum products and certain textiles. This concession has not been extended as fully to agricultural exports, simply because a number of them, notably citrus fruit, tomatoes, olive oil and wine compete with the Community's own production. The tariff reductions vary, therefore, between 20% and 100%, while exports of certain products are subject to quotas and can be exported only at certain times of the year.

Thus the 55% tariff reduction on fruit salad is for a quota of 100 tonnes a year; the 30% tariff reduction on tomato concentrate was similarly for a fixed amount. (The major exporter, Morocco, has preferred to pay the full tariff.) The preferential rate of duty for brans and sharps (used mainly for animal fodder) is applied only if exports are at the EEC's minimum entry price.

These concessions have been made on a non-reciprocal basis, as in the case of the ACP countries, and for an indefinite period. However, the financial protocols annexed to each agreement, are for five years (and were renewed in 1981). The fact that all seven agreements should have been concluded for an indefinite period is a clear indication of the political importance the EEC attaches to its economic relations with them. Another indication is the provision for the Cooperation Council, set up under each agreement, to meet at ministerial level. Of all the other cooperation agreements, only the Lomé Convention provides for meetings at so high a political level.

Commercial cooperation with the "non-associated" developing countries

With Britain's entry into the EEC the enlarged Community had to decide on the arrangements to be concluded with the developing Commonwealth countries in Asia. Association had been ruled out during the 1961/63 negotiations. Now the introduction of the GSP seemed to take care of the problem of access for their exports, certainly of industrial products. And the Community as such clearly was in no position to take on the burden of financial aid to countries as populous as India.

The Joint Declaration of Intent, annexed to the Treaty of Accession, undertook to examine with the independent, developing members of the Commonwealth (and, eventually, with their neighbours in southeast Asia) "such problems as may arise in the field of trade with a view to seeking appropriate solutions." India was the first country to take advantage of this offer. During the early 1960s it had wanted to conclude a formal trade agreement with the EEC but had met with no response. The JDI opened the way for an agreement.

With the introduction of the GSP there was less need for tariff concessions. A preferential agreement, such as Lomé I, could be ruled out, therefore. In any case, as both India and the member states of the EEC were contracting parties to the Gatt, tariff reductions on products not covered by the GSP could be dealt with in the context of multilateral trade relations. Meanwhile, India would automatically benefit from the reductions to the Community's tariffs resulting from the Tokyo Round of trade negotiations in the Gatt.

It was logical, therefore, that the projected agreement with India provide for most-favoured-nation treatment for the exports of both India and the EEC. For the rest, the two sides concentrated on how they might act jointly to increase their two-way trade. As a result, the 5-year, non-preferential commercial cooperation agreement concluded in 1973 contained no new tariff concessions but provided for the EEC and India to cooperate with each other - through exchanges of trade delegations, for example - in raising their two-way trade.

Commercial cooperation agreements were concluded with Pakistan, Bangladesh and Sri Lanka. The EEC offered to conclude a similar agreement with the 5-nation regional grouping in Southeast Asia, ASEAN, but the latter felt a Joint Study Group to be adequate for the time being.

India took the initiative in 1978 in seeking to expand the scope of its 1973 agreement. This agreement encouraged cooperation between Indian and European enterprises in the industrial sector, provided it was linked to trade, so as to remain within the Community's competence. But India now wanted co-operation to be extended across the entire range of economic endeavour.

The present EEC/India agreement lists several activities aimed at bringing together economic operators from both sides. They include visits by trade and industrial delegations; participation in trade fairs and exhibitions by Indian firms; the promotion of private investments; cooperation between Indian and European trade and economic organizations; technological and scientific cooperation, including joint research programmes, notably in the fields of energy and energy-related technology and environment protection.

Since 1980 the Community has entered into cooperation agreements with several "non-associated" developing countries. They are more comprehensive in scope than those concluded in the 1970s and contain provisions for development cooperation also to be financed out of funds made available by the EEC for the "non-associated" developing countries as a group. The latest of these agreements is with Pakistan and is the first to be described as a "commercial, economic and development cooperation agreement." Other commercial and economic cooperation agreements have been concluded in recent years with ASEAN, Brazil, the Andean Pact group and the People's Republic of China.

The Euro-Arab Dialogue

The 1970s also witnessed another development of great potential importance to the Community's trade policy. This was OPEC's decision in 1973 to raise oil prices four-fold. To the economic impact of this unexpected move was added the political and psychological shock of the Arab oil embargo. At their December, 1973, summit meeting the EEC heads of state or government reaffirmed the "great importance" they attached "to opening negotiations with the oil producers on overall arrangements, including a wide range of cooperation..." As it would have been impolitic, and no doubt fruitless, to address the Organization of Arab Oil Exporting Countries (OAPEC) directly, the Community addressed itself to the Arab League, thus launching the Euro-Arab Dialogue.

The EEC's economic objectives have been clear from the start. They are to ensure stability in the Community's oil supplies and, if possible, in prices, and a high level of exports to the Arab countries in order to hold down the oil-related trade deficit to manageable levels. Given that many of its exports consist of equipment for the oil and petrochemical industries, the EEC has felt some concern over the impact on its own industries of this new, and eventually very substantial, increase in production capacity in the oil producing developing countries.

The contents of the Euro-Arab Dialogue reflect these concerns. The Joint Memorandum adopted in 1975 described the economic aims of the Dialogue to be the establishment of the conditions necessary for the development of the Arab World and the lessening of the technology gap separating Arab and European countries. To this end, the Memorandum noted, effective measures were necessary in all domains, based on an equitable division of labour between the two groups.

Following Egypt's exclusion from the Arab League in 1979, the Dialogue was suspended at the League's request. Although it was resumed in 1981, progress has been slow, partly because of the variety and complexity of the problems, political as well as economic, the Dialogue must deal with.

COMPREHENSIVE POLICIES FOR THE 1980S

It is clear from the foregoing that the EEC's trade policy toward the Third World has developed in much the same way as that of other trading nations: by fits and starts and more often than not in response to specific problems. Until the moment of Britain's entry its focus was Africa. After 1973 it was necessary to extend the network of formal trade relations to the developing Commonwealth and, later, for reasons of balance, to Latin America. Currently the Community is trying to see what readjustments the entry of Spain and Portugal will necessitate, especially to its Mediterranean policy.

The EEC has also taken an active part in the work of international trade fora, notably Gatt and UNCTAD. It can even be argued that during the 1960s and 1970s, while the developing countries were pressing for a global approach to development, the EEC was already applying it, first through the Yaoundé Convention, and later through the Lomé Convention, to which over half the members of the Group of 77 are now signatories.

Because of this the Community has always regarded itself as a pace-setter in relations with the developing world. At the same time it has offered to join forces with the other industrialized countries in helping the Third World as a whole. Thus even while implementing the provisions of the Lomé Convention relating to commodities, the EEC has actively supported the UNCTAD Integrated Programme for Commodities and its related Common Fund, just as in the 1960s it backed the demand for generalized tariff preferences for all developing countries and was the first to introduce a system open to all the members of the Group of 77.

The fact is that the EEC can claim today to have developed the widest range of instruments for helping developing countries raise their living standards through increased trade, on the one hand, and development aid on the other. As we have seen, these instruments include preferential trade agreements (which have been concluded with no fewer than 75 countries, including 27 of the least developed) as well as commercial and economic cooperation agreements, several of which have been concluded with the world's most populous countries, notably India, China, Indonesia and Brazil. The EEC also finances a variety of trade promotion programmes for developing countries. At the same time it participates in the various international commodity agreements and other international activities aimed at promoting North-South trade.

PART FOUR:
EFFECTIVENESS AND LIMITATIONS OF THE EEC'S TRADE POLICIES

SOME GENERAL LIMITATIONS

The EEC uses a wide range of instruments to promote trade with developing countries. But how effective have they proved? Have they actually resulted in higher exports to the Community?

A fall in exports cannot be taken as a sign of the ineffectiveness of the measures in question, of course. Tariff preferences, experience has shown, are not enough in themselves. The exporting country must have a surplus for export, or at least be in a position to increase production sufficiently to generate a surplus. What is more, its prices must be competitive when compared to those of other suppliers, and it must know how to market its products. In other words, whether exports rise or fall depends as much on measures taken in the exporting country as the concessions extended by the importing country.

The level of exports depends also on the level of economic activity in general. Clearly at a time of economic recession demand for industrial raw materials will fall off. So will demand for tea and coffee, as unemployment rises and purchasing power declines. The last 10 years have not been especially favourable to an increase in world trade. Hence the argument, put forward by several Western leaders in recent years, that the best way in which the industrialized nations can help just now is by getting their own economies moving forward again.

In the following pages we shall try to see how far the various Community instruments have benefited the developing countries. We shall be looking for a rise in exports to the Community, of course; but also for a diversity in the products exported, especially for a shift from raw materials to semi-finished and finished goods.

THE LOME CONVENTION

Between 1973 and 1983 the EEC's imports from the ACP countries rose by 220% while the increase in imports from the developing countries as a group was 280%. Even without the exports of OPEC the developing countries as a group still managed an increase of 260%. What is more, the ACP share in the

This is borne out as regards cocoa, for example, of which the EEC is the leading importer. The ACP share of both the world and EEC markets has fallen in recent years, largely because production has declined in two major producing countries, Ghana and Nigeria. The Ivory Coast, the world's leading producer, and Cameroon have done relatively well, on the other hand. (In 1983/84 production in the Ivory Coast rose by 13%, partly because of more favourable weather conditions.)

But it will be difficult for Nigeria and Ghana to recover lost ground and for the others to raise their exports even further. The fact is that consumption is stagnant and is unlikely to rise in the industrialized countries. The ACP countries, who account for about 65% of world production of cocoa beans, will have to fight among themselves and against other developing countries to increase their market share. This is already happening as regards coffee, where Latin American producers, who account for about two-thirds of world exports, are marketing aggressively to increase their share of a declining market.

But successive Lomé Conventions have aimed at helping the ACP countries process raw materials locally and increase the ratio of manufactured products to primary commodities in their exports. In 1983 their exports of manufactures amounted to ECU 2.4 billion and represented some 10% of total EEC imports from developing countries. The situation is perhaps less encouraging as regards the manufactured products nearly all developing countries begin by exporting - textiles, clothing, footwear and plywood.

The ACP countries account for under 4% of the EEC's total imports of plywood, including veneered panels and sheets. The lion's share of this is supplied by Gabon. Textile yarn and thread are exported by seven ACP countries but the quantities are marginal - around 5,000 tonnes in all (1% of total EEC imports). The situation is similar as regards cotton fabrics and clothing, with even the major ACP exporters - e.g. the Ivory Coast for cotton fabrics and Mauritius for clothing - ranking far behind other developing exporting countries. Senegal is virtually alone in exporting footwear but its market share is negligible.

The Lomé Convention has had little impact, therefore, on ACP exports of manufactured products. Were the Asian countries to enjoy terms similar to those extended to the ACP group, the results almost certainly would be very differ-

Community's total imports from the Third World fell by 19% to 16% over the same 10-year period.

At first sight, therefore, the Lomé Convention does not seem to have helped ACP countries in their efforts to develop their exports. But all generalizations regarding the ACP are of limited value. The differences between the 64 countries that make up the group are so large that a valid assessment of the effects of the Lomé Convention on exports must be on the basis of subgroups at the very least. Nigeria, inevitably, dominates the group. It alone accounts for over 40% of the total GNP of the 64 countries; and thanks to its oil income, its per capita GNP is more than twice the ACP median. The seven largest ACP economies together account for two-thirds of the total GNP of the group.

Their growth rates vary greatly. In the decade between 1970 and 1980 seven of the 43 African countries in the group recorded an average annual rate of growth of over 4% in real GNP per head. But even within this group there are considerable differences. Among the seven are Nigeria and Gabon, both large-scale exporters of primary products; Mauritius, with a population of one million and heavily dependent on its sugar exports; Rwanda, with a per capita GNP of $200 and Botswana, which contains most of the Kalahari desert. However, 24 of the 43 African countries saw their real per capita GNP decline over the 1970s.

Given this great diversity within the ACP group, it is evident that one should look at the trade of individual countries to find out how effective the Lomé Convention has proved in raising their exports. For all practical purposes this means looking at a handful of countries - notably Nigeria, the Ivory Coast, Zaire, Cameroon and Zambia. One can also look at the major exports of the ACP as a group. Three commodities dominate ACP exports to the Community. They are oil, coffee and cocoa.

Now oil is a "special" case in that the oil exporting developing countries operate a cartel which sets both prices and output - although with only limited success in recent years because of the glut in supplies on the world market. The situation is somewhat similar as regards coffee and cocoa in that trade in both commodities is governed by international agreements. However, in all three cases market forces seem to be the decisive factor, so that the ultimate responsibility for raising exports lies with the producing countries.

ent. This suggests that countries must be in a position to take advantage of benefits extended them. Many experts believe that if a country is to operate a modern industry profitably it must have a population of 10 million at least. Only a dozen ACP countries meet this requirement.

Mauritius has shown that the handicap of a small domestic market can be offset by producing for world markets, although it remains true that a large home market can make it easier for domestic manufacturers to compete abroad. But in order to develop export-oriented industries most ACP countries, even more than countries in Asia and Latin America, need foreign investments, know-how and managerial skills. While the Lomé Convention encourages the transfer of all three to the ACP countries, the fact remains that European manufacturers willing to invest in Third World countries generally want to produce for the local market. Those wanting to take advantage of low wages to manufacture for the European market have shown a disinclination to set up plants in black Africa.

A large number of ACP countries seem badly handicapped in the on-going race among Third World countries to develop exports of manufactured goods to the industrialized markets. Their trump card - duty-free and quota-free access to the important EEC market - clearly is not enough. For many Asian countries, for example, EEC tariffs on industrial products are far less of a hurdle than EEC quotas - and the threat of such quotas.

Have the EEC's rules of origin hampered ACP exports of manufactures? They require, for example, that 50% of the value of the parts or components used in the manufacture of a given product be of ACP (or EEC) origin if the finished product is to qualify for duty-free entry. This clearly is a very high figure, given the handicaps many ACP countries face in their efforts at industrialization. The Community has maintained that a lower figure would attract footlose companies, especially the multinationals from outside the EEC. They would limit their operations to simple assembly of imported components or even packaging and labelling of finished products, in order to take advantage of duty-free entry into the EEC.

The 50% rule clearly has obliged manufacturers to be more innovative. Thus a Jamaican firm is making work clothes from fabrics imported from the Ivory Coast and Scottish wool is being converted into sweaters in Mauritius. But to the extent that the rules of origin are hampering industrial ventures, the EEC has not only simplified them under Lomé III but also improved the derogation system (under which the 50% criterion can be waived) and eliminated it altogether for several products of export interest to the ACP countries.

RULES OF ORIGIN

The Lomé Convention, the Mediterranean agreements, the Generalized System of Preferences all provide for preferential - which often means duty-free - entry into the EEC of the exports of the ACP, Mediterranean and other developing countries. But in order to qualify for such preferential treatment the products must "originate" in the exporting country.

A shirt made in Egypt from locally produced cloth, which itself was woven from yarn spun from Egyptian cotton, clearly is of Egyptian origin. But if Sri Lanka were to make shirts from Egyptian cloth would they be of Sri Lankan origin? And if Madagascar re-packaged shirts imported from Hong Kong, would the EEC accept them as originating in Madagascar?

But why should it matter on the EEC whether shirts exported by Madagascar are made locally? It matters because the Community's purpose in granting preferential entry to developing countries is to help them industrialize. And clearly simply repackaging goods made elsewhere, mixing products and assembling components hardly qualify as industrial activities. On the contrary, they can result in trade deflection, as when a South Korean television manufacturer ships his sets to an ACP country for repackaging and re-export to the EEC.

Of course very few developing countries are in a position to produce all the necessary inputs themselves; some at least must be imported. The EEC's rules of origin allow the use of imported material, provided it does not exceed 40% to 50% of the value of the finished product. Thus if its value is $100, inputs worth up to $40 (or $50) can be used from a non-originating source.

However, in order to encourage trade among the ACP countries, the Community allows them to "cumulate" origin. This means that inputs obtained in another ACP country are regarded as "originating products", so that the value added criteria mentioned earlier does not apply. Inputs bought in the EEC are also regarded as "originating products". Countries belonging to the two regional groupings, ASEAN and the Andean Pact, can also "cumulate" origin.

The trade provisions of the successive Lomé Conventions reflect the theories of export-led growth (plus the need to safeguard certain long-established trade flows between individual ACP and Community countries). But given the make-up of the ACP group, and especially its high proportion of least developed countries, the Convention's trade provisions probably are much less important than its provisions for development aid.

Any assessment of it must focus, therefore, on these provisions (stabilization of export earnings; agricultural cooperation; rural development; technical cooperation, aid to small and medium-sized firms; regional cooperation, etc.). How effective have they proved in developing production for domestic consumption? How far has the EEC's financial cooperation helped the ACP countries meet the foreign exchange costs of developing agricultural and industrial production? What effect has the EEC's technical cooperation had on the capacity of individual ACP countries to take control of their own economic development?

These questions lie outside the scope of this paper. As regards the trade provisions of the Lomé Convention, they do not seem to have led to a significant increase in ACP exports to the Community as regards primary products and raw materials (which still account for some 90% of their exports).

Nor are the results more encouraging as regards manufactures. The share of individual ACP countries in the EEC's imports of Third World Manufactures remains either small or negligible. But it is just possible that without the Yaoundé and Lomé Conventions their situation might have been even less favourable vis-à-vis other developing countries.

THE SOUTHERN MEDITERRANEAN COUNTRIES

The seven countries of the Arab Mashreq and Maghreb provide an acid test of the EEC's willingness to develop its imports from the Third World, especially of manufactured goods. Greece and Italy are closer physically and, perhaps in temperament also to their neighbours across the sea than to their partners in Northern Europe. With the entry of Spain and Portugal, the EEC's Mediterranean character will become even stronger.

The cooperation agreements with the seven Mashreq and Maghreb countries only confirm the Community's Mediterranean vocation. But have these agreements drawn the two sides closer together as regards their trade? Actually a high proportion of the exports of the seven Arab states consist of raw materials which would enter the EEC duty-free anyway. They include oil and gas from Algeria, phosphates from Morocco and cotton from Egypt and Syria. In fact some 95% of Algerian exports to the EEC are made up of crude oil and natural gas; they account for around 50% of the total exports of the seven southern Mediterranean countries.

The fact that raw materials still account for such a large part of their exports suggests that the prospects of duty-free access has not stimulated investors to process these raw materials locally. But Egypt's attempts to transform its raw cotton into yarn and fabrics, for example, have been hampered by the import restraints introduced by the EEC. Tunisian and Moroccan efforts to build up a garment industry have also led to the introduction of import quotas.

Although the cooperation agreements rule out the use of quotas the EEC, under pressure from its textile lobbies, persuaded Tunisia and Morocco to accept voluntary export restraints. The measure, it noted, would be temporary and ensured that the safeguard clause would not be invoked. However, it almost certainly would have been in Tunisian and Moroccan interests that the EEC invoke it, for it would have been obliged to provide firm evidence that imports from these two countries were directly responsible for the crisis in the European textile industry.

The Community's textile imports from Egypt, Tunisia and Morocco have continued to rise, however, despite the introduction of import ceilings. Certainly imports from the Mediterranean countries have been much less severely restricted than imports from the Far East, for example. This suggests, therefore, that the rise in the exports of the Mediterranean countries has been at the expense of other developing countries.

The effect of the quotas is to penalize the southern Mediterranean countries for having a comparative advantage in labour costs. The same situation exists as regards their exports of processed agricultural products. Here their comparative advantage extends to local production of the raw materials, and the penalty consists in tariff concessions being made conditional on sales taking place at certain times of the year only or at minimum prices for fixed quantities.

Of course the Mediterranean regions of the 10-nation EEC are facing difficulties as regards the disposal, on the open market, of their own production of citrus fruit, wine, olive oil, etc. Their problems will increase with the entry of Spain and Portugal into the Community. The 12-nation EEC is likely to have a substantial surplus of olive oil, a major Tunisian export, and to depend far less on imports of citrus fruit, an important export item for Morocco. Unfortunately there is only a limited export market for Mediterranean products outside the EEC.

But there are two major economic reasons why the seven Mashreq and Maghreb countries deserve better treatment at the hands of the Community. They account for a small share of the Community's total imports from all developing countries. In 1983 their share was under 12% if Algerian and Egyptian oil and gas exports are included; without them, their share was a mere 3%. However, the Community is a major market for all seven countries, taking between 35% to 60% of the total exports of each.

The second reason is the growing deficit which the Mashreq and Maghreb countries (with the exception of Algeria) face in their trade with the EEC. In 1983 their combined deficit amounted to ECU 5,220 million. This sum was equal to some 135% of their combined non-oil exports to the Community.

THE "NON-ASSOCIATED" DEVELOPING COUNTRIES

The "non-associated" developing countries form a very large and very heterogenous group. Although dominated by the oil exporting countries, the group also includes the newly industrializing countries (NICs) as well as the least developed. In this respect it is akin to the ACP group, and assessing the effectiveness of EEC policies poses roughly the same problems as in the case of the ACP group.

The two main trade policy instruments are (1) the GSP and (2) the various economic and commercial cooperation agreements. A third is represented by the bilateral agreements concluded by the EEC with over a score of "non-associated" developing countries but under the GATT Multifibres Arrangement (MFA), which in theory expires in July 1986. (From a strictly legal point of view the ACP countries also are beneficiaries of the GSP. They make no use of it, however, as they enjoy more generous tariff preferences under the Lomé Convention.)

In 1983 the exports of the "non-associated" countries (essentially from Latin America, Asia and the Middle East) amounted to some ECU 80 billion, as compared to ECU 22 billion in 1973. Although this represents an increase of some 250%, their share of EEC imports from all developing countries was around 66% in both these years. Over this same period the Asian countries saw their exports rise by 365%, the Latin American by 273% and the countries of the Middle East by 206%. (The ACP countries saw their exports rise by 220% during this period.)

THE GSP

How much of this increase was due to the GSP? It is not easy to isolate the effects of the GSP on the Community's imports from the non-associated developing countries. It must be remembered that a substantial part of their exports are not subject to tariffs anyway; and that during the early years of the GSP most beneficiary countries were trying to master its complexities (when they were not indifferent to it altogether, having few, if any, semi-manufactured and manufactured products for export).

In 1978 GSP imports amounted to 3.6 billion ECUs, a figure which had risen to ECU 8.8 billion in 1982 but fell slightly in 1983 to ECU 8.6 billion. The increase between 1978 and 1982 was 145%; the 2% decline in 1983 was due to a drop in imports of refined petroleum products which, incidentally, are an important item. The bulk of GSP imports from Venezuela and Saudi Arabia, for example, consist of such products. But it is the policy of the oil companies rather than the GSP scheme which is the decisive factor here.

In 1983 GSP imports accounted for roughly one-third of imports eligible for GSP treatment. This seems a relatively low figure but it must be remembered that GSP quotas and ceilings are seldom fully utilized. In 1983 these together amounted to ECU 16.8 billion, of which just over 50% were utilized. Of course certain GSP quotas and ceilings are better utilized than others. In 1983 textile quotas were under-utilized by some 30% whereas textile ceilings (which are simply kept under surveillance) were exceeded by 30%. GSP textile imports in fact represented 11% of total GSP imports in 1983.

How far has the GSP furthered the initial objective of helping developing countries increase their exports of manufactured goods and, by the same token, become more industrialized? The list of the major beneficiary countries offers an indirect answer to this question. From the beginning a large part of the GSP benefits has gone to roughly the same dozen or so countries (whose names appear at the top of the list of beneficiaries for every GSP scheme).

Many of them are newly industrializing countries; together they have accounted for as much as two-thirds of all GSP imports. Another important group has consisted of middle income countries in Asia and Latin America. However, the list of the major GSP beneficiaries has undergone changes in the last two or three years. While Brazil has more than held its own, other Latin American countries have slipped back, while the Asian countries have moved ahead. They include India, South Korea and Hong Kong as well as Malaysia and Singapore. A recent beneficiary, China, seems intent on catching up with them.

A few of the least developed countries, notably Bangladesh and South Yemen (petroleum products), are beginning to take advantage of the GSP. In the last 2 or 3 years their GSP exports have increased by some two-thirds (admittedly from a very low base). This suggests that the Community's decision to relax all the rules in their favour (including the rules of origin) is beginning to bear fruit. Even so, the major beneficiaries of its GSP scheme (like those of the other industrialized countries) are the countries which had an industrial base and were exporting manufactured goods already. The GSP has helped them build up their exports faster and diversify the range of their exports. With some exceptions, it has had very little effect on either the exports or the level of industrialization of the less advanced countries.

There are a number of reasons for this. The most important, perhaps, has to do with the nature of the GSP. Developing countries tend to think of it as an instrument of development aid; it is in fact a trade concession. What the GSP does is give Third World exporters a certain edge in their negotiations with importers. But they must first find a buyer.

The Community market is both demanding and attractive. It is therefore a difficult as well as a highly competitive market. As the EEC forms a free trade area with the other West European countries, its GSP scheme confers no advantage to Third World exporters vis-à-vis these countries which, nevertheless, account for 25% of the Community market. The countries against which it gives them a competitive edge are the United States and Japan!

THE COMMERCIAL AND ECONOMIC COOPERATION AGREEMENTS

As for the economic and commercial cooperation agreements, their effect on exports is even more difficult to assess, even though the number of countries with whom the EEC has concluded such agreements is very small and only in the case of the four South Asian countries have the agreements been in operation for any length of time. It must be remembered that the non-preferential cooperation agreements try to generate more trade through changes in the pattern of industrial production, especially in the developing countries. The various agreements assume that in order to bring about such changes the developing countries need new technologies, more R & D, fresh foreign investments, better marketing techniques, etc. The emphasis in these agreements, therefore, is on cooperation between those in the EEC who have this technology, capital, marketing skills and other modern inputs and their Indian or Brazilian or Chinese counterparts.

The effectiveness of the non-preferential cooperation agreements will be reflected, therefore, in increased transfers of technology; more direct European investments, through joint ventures, for example; agreements for the promotion and protection of foreign investments; agreements on the avoidance of double taxation, etc.

The experience of the ASEAN countries, which have been quick to absorb investments and technology from not only the EEC but also Japan and the United States, suggests that the underlying assumption of these cooperation agreements is a sound one. The 1984 EEC/ASEAN ministerial meeting in Dublin concluded that the 1980 agreement "had fulfilled satisfactorily its role..." There had been a substantive increase in EEC/ASEAN trade, the proportion of manufactured goods in ASEAN exports had continued to rise, as had the level of European investments in ASEAN.

CONCLUSIONS

The 10-nation EEC is a major economic and trading power. With per capita imports of $1,080 (in 1983) it is essentially an open market: countries with a relatively high per capita value of imports tend to apply relatively low tariff rates, as a recent UNCTAD report noted. The EEC's average tariff, on the CIF value of its total imports, including those at zero duty, is 1%

(as compared to 2.9% for Japan and 3.5% for the United States). According to an IMF study, the import duties levied by the Community represented 0.4% of central government revenues in 1979 (as compared to 1.7% for all developed market-economies and 1.6% for the U.S.).

The 10-nation EEC is also a major market for the exports of developing countries. Per capita imports from the Third World amounted to $410 (as against $580 for Japan and $460 for the U.S.). From the beginning the EEC has recognized that trade can make an important contribution to the economic growth and development of the Third World also. It has responded by (1) keeping the Community market as open to imports from developing countries as possible and (2) actively promoting both imports and the investments and technology transfers developing countries need if they are to compete successfully on European markets. What is more, it has developed a wide range of instruments to achieve these ends.

The earliest of these were preferential arrangements, such as the Yaoundé Convention. Under these agreements the free access which individual developing countries had traditionally enjoyed to one EEC member state were made available in all Six and currently in all Ten. But since 1959 the Community has also sought to reduce gradually the preferential margins - i.e. the difference between the preferential and the most-favoured-nation rates of duty. This difference, which was originally 16% in the case of unroasted coffee, for example, is now 5%. And since 1971 most of the zero or low rates of duty applied under the preferential agreements have been made available to all developing countries.

TARIFF PROTECTION IN THE EEC, UNITED STATES AND JAPAN

Tariffs on representative items++

Product	EEC	U.S.	JAPAN
Coffee (unroasted)	5%	Free	Free
Coffee - instant	18%	Free	19.4%
Shirts (men's, boys')	13.7%	21% or 36.3%	12.1%
Shoes (leather)	8%	Varies from 17¢ a pair to 17%	27%
Hand tools	4.8%	1.5% to 8%	4.2%
Plywood	10.4%	4.7% to 20%	17.5%

++ Rates notified to GATT and in force as follows: EEC - 1985; U.S. - 1984; Japan - 1985 (Jan-Mar). These tariffs are waived or reduced for imports from countries that enjoy preferential treatment, e.g. the 65 ACP countries under the EEC-ACP Lomé Convention, and all developing countries under the GSP.

Source: Customs Tariffs.

(Between 1978 and 1983 GSP imports rose twice as fast as total imports from the developing countries).

Although it has been the subject of much criticism by the developing countries, the Community's GSP scheme is exemplary on at least two accounts: (1) it covers all industrial products, including highly sensitive ones like textiles, clothing and footwear and (2) its benefits are available to all developing countries. Equally noteworthy is the fact that no country has had GSP benefits withdrawn on the grounds that it had become too competitive; in a limited number of cases the more competitive countries have had their quotas frozen for specific products.

The one black spot in an otherwise relatively bright picture is provided by textiles and clothing. According to an UNCTAD report volume and price restraints affect as much as 80% of the EEC's imports of textiles and textile articles, as compared to 45% for all developed market-economy countries, 25% for the United States and 8% for Japan. These restraints, essentially non-tariff barriers, include tariff- and other quotas, control of the minimum price level, etc. It should be pointed out that many of them apply to imports from Eastern Europe. Restraints, essentially quotas, affecting imports from Asian and Latin American countries are applied under the Gatt Multifibres Arrangement (MFA).

But the restraints must be seen against the background of the situation within the EEC's own textile and clothing industries. In recent years production of both textiles and clothing has fallen below the levels reached in 1975, and any sustained recovery is ruled out for the present. Employment, too, has fallen, by some 40% between 1973 and 1983.

Despite the virtual stagnation of internal demand for textiles (it has risen 1% a year since 1975), imports over the same period have increased by 115%. Unlike the United States and Japan, the Community imports large quantities of both textiles and clothing from the Mediterranean countries as well as Eastern Europe; in fact a considerable proportion of Japanese fabric exports to Asia end up in the EEC as finished products. If the imports from developing countries are viewed on a per capita basis, the EEC leads with $51, followed by the United States with $36 and Japan with $16 (1983 figures).

Textiles apart, the restrictions imposed by the EEC on imports from developing countries are relatively few. In a number of cases the EEC has obtained voluntary export restraints for specific products from certain "non-associated" developing countries as, for example, steel from South Korea and Brazil. Some countries with preferential agreements, such as Tunisia and Morocco, have been obliged to accept voluntary export restraints also, usually on textiles and clothing. And the Community has been less generous than the developing countries had hoped as regards its generalized system of preferences (GSP).

But if the EEC's trade policies are not as restrictive, on the whole, as its critics maintain, their implementation can - and does - create uncertainty in the minds of Third World exporters, who claim they never know when the Community may restrict imports of a given product. The uncertainty is all the greater as the restrictions invariably are selective as to products and countries. On the other hand, not even countries with preferential agreements are entirely safe from such selective action.

Paradoxically, some of this uncertainty stems from the EEC's desire to implement its trade policies as liberally as possible. Although all GSP imports are subject to quotas or ceilings, many of the latter are "notional" in the sense that in many cases no action may be taken even after the ceiling has been substantially exceeded. This can lead exporters to assume the ceiling to be non-existent, until the day the decision is taken to halt further GSP imports of the product in question until the following year.

The fact that the single internal market promised by the Treaty of Rome has yet to materialize can also create uncertainty for exporters. In principle, once goods have cleared customs at any EEC point of entry they can be moved freely within the Community. In practice, however, this is not always possible. Under the bilateral textile agreements import quotas are distributed among the member states, so that in practice a state can block imports once its quota has been fully utilized by the textile exporting country. To the extent that the quotas are published in the EEC's Official Journal such stoppages can be foreseen by the well-informed exporter. However, a member state can also invoke Article 115, under which goods in free circulation within the Community can be kept out of a member state to avoid economic difficulties for it.

The uncertainty which the threat of restrictive action can give rise to is likely to discourage the potential exporter as well as the private investor. The uncertainty is greatest no doubt for industries such as textiles, clothing and footwear. It can be argued that well-established textile exporting countries, such as Hong Kong or India, should recognize that they have acquired a "fair" share of the EEC market and diversify into other lines. The fact is that as the developing countries have established new lines they have found their exports threatened by restrictive action once they become competitive. The recent, and admittedly rapid, expansion of the petroleum and petrochemical industries in the countries of the Arabian Gulf has already led the Community to envisage the possibility of taking restrictive measures against the GSP exports of these countries, perhaps as a prelude to a self-restraint agreement.

Developing countries accept the need for a safeguard clause, but to avoid abuse they maintain its application should be non-discriminatory rather than selective and should be justified. In fact most of them believe safeguard action should be taken, if at all, under Article 19 of the Gatt (which provides for non-discriminatory action and compensation). In recent years the EEC has taken the attitude that where restrictive action is taken on political or social grounds - for example, to prevent a further rise in unemployment - imports from any developing country can be restricted. In 1984 quotas were imposed on shirts exported from Bangladesh to the U.K. and France, pending consultations, although Bangladesh is both a newcomer to the textile trade and a least developed country and entitled to more favourable treatment on both scores.

It is the EEC's handling of cases such as that of Bangladesh which confirms developing countries in their belief that the Community is protectionist, especially when it comes to their exports. But accusations of protectionism are often launched by countries which are unable to compete successfully on the EEC market. Exporting to any market is a difficult business at the best of times. If European firms seem much more successful at it the reasons are not far to seek: a high proportion of their exports are (1) within the frontiers of the EEC or to other European countries and (2) between related parties (i.e. intra-firm trade).

Provided a developing country has the skills needed to produce goods to the requirements of the EEC market and to market them effectively, it will find the Community as open a market as any other. The experience of the ASEAN countries bears this out. Between 1978 and 1983 their exports of agricultural products rose by 50%, as compared to an increase of 34% recorded by all third countries during this period. As regards manufactured products, between 1973 and 1983 the proportion exported by ASEAN rose from 25% of their total exports to 42%. In 1973 they represented 0.1% of the EEC's domestic consumption of manufactured goods; by 1983 they represented 0.4% of a much higher level of consumption.

Given the much greater American and Japanese business presence in ASEAN one would expect its trade to be directed mainly toward these countries. This is the case in general. However, between 1973 and 1983 the EEC's imports of manufactured products from ASEAN rose by 642%. This was somewhat below the corresponding figure for the United States - 700% - but well above that for Japan - 312%. Even as regards textiles and clothing, the EEC was the major market for ASEAN exporters in 1980 and 1981, taking between 27% to 30% of the total, as compared to 22% for the United States and 4% for Japan. In fact the annual growth rate of the Community's textile and clothing imports from ASEAN was 16% between 1977 and 1983.

The rapid growth of certain imports from ASEAN, especially of manufactured goods, has led to concern in some EEC countries. Some five years ago the then Foreign Minister of Singapore suggested, during an EEC/ASEAN ministerial level conference in Brussels, that the two sides should consult each other regularly on their changing industrial structures. Implicit in the suggestion was the belief that the industrialized countries have "outgrown" a certain number of industries, because they are labour intensive - or even because they pollute the environment.

It is clear that many developing countries would like the EEC to join with them in a concerted attempt to change the pattern of industrial production on both sides on the basis of a new international division of labour. While the concept of declining industries is less readily accepted by industrialized countries today - Community officials have argued there are no declining industries, only industries awaiting a fresh transfusion of technology - the EEC is prepared to encourage European firms to collaborate with firms in developing countries through the transfer of technology and capital.

All the cooperation agreements in fact provide for industrial cooperation. The most detailed provisions are to be found in the successive Lomé Conventions. To encourage EEC firms to invest in the ACP countries the Community can subscribe to the share capital of joint ventures with funds provided by the European Development Fund. The EEC also maintains a Centre for Industrial Development in Brussels, which seeks to bring together European and ACP firms.

The cooperation agreements with the "non-associated" countries are not as detailed. The EEC has so far limited its activities to organizing industrial and business seminars to which European as well as Third World firms are invited. However, before small and medium-sized enterprises from the EEC can venture into Asia and Latin America they may have to be helped in much the same way as provided for by the Lomé Convention. Experience suggests that industrial cooperation, in the widest sense of the term, is an effective means both of industrializing developing countries and helping them develop their trade with not only the EEC and other industrialized countries but also among themselves.

OTHER PUBLICATIONS CONCERNING DEVELOPMENT

Other EEC publications about the Community's relations with the Third World can be obtained from:
Commission of the European Communities,
Directorate-General for Information, Division "Information on Development",
200, rue de la Loi,
1049 Brussels(Belgium)

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