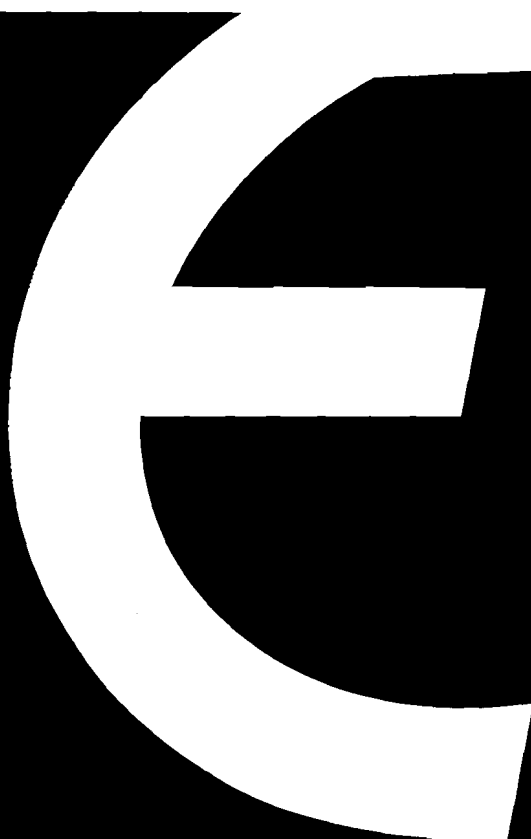


The European Community and the Third World



European File

Despite the progress made by a number of Third World countries in the last 20 years, there are 3 000 million people who earn less in one year than the average monthly earnings of people in the industrialized countries. In many cases their annual income does not even match our typical wages for one week. Under-development is, essentially a gulf between two parts of the world. The symptoms are familiar enough : malnutrition, illiteracy, unemployment, disease and epidemics. The number of children with serious deficiencies in their diet could increase in the next 10 to 20 years from 400 million to 600 million.¹

Coping with under-development : why cooperate?

The major causes of under-development are :

- Limited or under-exploited natural resources. With a few exceptions, Third World countries do not have sufficient resources to satisfy their own needs, let alone enough to export to obtain foreign currency to buy goods they require. The raw materials in which Africa is potentially rich remain largely unexploited. Of the 1 500 million dollars invested annually in mineral prospection worldwide, only 50 million is spent in Africa. In the food sector, Third World cereals imports rose from 25 million tonnes to 80 million tonnes between 1960 and 1980 and could reach 200 million tonnes by the year 2000. The increase has been caused, amongst other things, by : the rise in population, which is beginning to slow down, but remains in many cases faster than the increase in agricultural output; the policy of favouring town-dwellers by maintaining food prices at artificially low levels, thus discouraging local production; climatic disasters, such as droughts and floods, which can wipe out several years' work in a matter of days. As a result of such disasters and, also, unsuitable techniques of stock-rearing and cultivation, the natural environment is gradually being ruined in many places. Witness the ceaseless advance of the desert south from the Sahara.
- The structure of the world economy. Most countries in the southern hemisphere have won their political independence but still operate under an economic system created by and for the wealthy countries. One Third World political leader commented : 'In 1976 we had to sell four tonnes of cocoa to buy a tractor; in 1982 we had to sell 7.6 tonnes.' It is a fact that the price of many raw materials and commodities has fallen by more than half since the 1950s. This worsening of exchange rates has caused an imbalance between imports and exports, a reduction in purchasing power and a deterioration of the financial situation in poor countries, which have also suffered in many cases from the rising cost of imported oil. To survive, these countries have taken on huge debts. The strength of the dollar and the slowing of imports by the northern hemisphere, as a result of the recession, have made the interest-rate burden even more difficult to sustain.

¹ This file updates and replaces our No 3/83.

Third World countries are seeking a number of improvements :

- Raw materials : price indexation, stabilization of export earnings, processing in country of origin, not in developed countries.
- Agriculture : development and diversification of production, according to local needs.
- Industrial development : redeployment of international industrial activity, encouragement of private investment and technology transfers; the opening of the markets of wealthy countries to manufactured goods from the Third World.
- Aid from rich countries : to be increased in volume; a reduction in the massive public debt of poor countries; protection against inflation.

Faced with the difficulties of the Third World and these demands, the European Community cannot remain unmoved. How can we ignore the fact that 3 000 million people are hungry? Apart from this moral imperative, which remains paramount, European aid to the Third World is justified for other reasons.

- Unless steps are taken to reduce the gulf between rich and poor it must inevitably lead in due course to violent clashes. In such circumstances, Europe could have more to lose than most.
- The Community has a direct economic interest in assisting the Third World, on which it depends far more than other industrial powers.
 - Dependence, first of all, for energy : Europe imports almost half its energy. Nine out of every ten tonnes of oil come from the southern hemisphere. Europe imports 65% of its uranium from Africa. Efforts by Community countries to save energy and find new energy sources will reduce but not eliminate this dependence.
 - Dependence for raw materials. For a series of products — rubber, coffee, copper, etc. — which underpin the economic and everyday life of Europeans, dependence on Third World imports is more than 70%.
 - The economic upheaval experienced by industrialized countries forces them to find new markets for their goods. Clearly, the southern hemisphere can provide these new markets and holds the key to a new period of growth. The Third World is the Community's best client; in 1983 it took 38% of Community exports. The United States took 17% and the Eastern bloc 7%. Third World markets are particularly valuable to the Community because they mainly take finished goods. About 40% of our sales are made up of machinery and transport equipment. A similar amount consists of chemical and manufactured goods. On the other hand, these three categories account for only 20% of European imports from the southern hemisphere. As a result,

despite the serious problems affecting some of its industries (textiles, footwear, etc.) the Community has a positive balance of trade with the Third World, worth 65 000 million ECU in 1983.¹

The impoverishment of the Third World, the poor economic climate and protectionist tendencies are causing a slackening of trade which, if it continues, threatens to undermine the joint economic development which the interdependence, outlined above, demands. Nothing could be more disastrous. In order to relaunch the European economy, the Third World must be helped to boost its purchasing power by improving access for its exports (84% of its financial resources) and increasing development aid (6%). The Community is already the leading partner of the Third World in both these areas. It provides a market for one-third of Third World exports and, bilateral contributions by Member States included, it gives 0.53% of its domestic product in public development aid (compared to 0.29% by Japan, 0.24% by the United States and 0.13% by the Eastern bloc). The United Nations target is 0.70%.

Alongside its Member States, the European Community has an important role to play in development cooperation. The common external tariff imposed by Member States on imports from the rest of the world makes the Community a single unit in the eyes of other countries. Only the Community can decide, for instance, on customs duty concessions for the Third World.

The Community's efforts in the development field — its financial aid represents about 10% of the combined efforts of Member States — are not simply a repetition of government contributions. The Community attempts to supplement and coordinate national aid. This helps Member States to present a united front in major international negotiations on development, such as the Euro-Arab and North-South dialogues. The Community often speaks on behalf of its Member States at meetings of this kind. It also plays an increasingly important role in coordinating national aid policies.

Global policy

European development aid policy accords particular importance to Africa, the Pacific and Caribbean, partly for historic reasons and partly because of the special problems of countries in these regions. But there has nevertheless been a balancing out of Community efforts. Even though 60% of Community aid still goes to these areas, India has become the single largest beneficiary. The Community has gradually developed an aid policy for the whole of the Third World. The principal instruments of this policy are :

¹ One ECU (European currency unit) = about £0.59, Ir.£0.71 or US\$0.71 (at exchange rates current on 10 April 1985).

- Generalized preferences : the Community was the first great industrial power to implement – in 1971 – the United Nations Conference on Trade and Development (Unctad) recommendations designed to assist Third World industrialization through special customs concessions. All developing countries can export industrial goods to the Community without paying customs duties. Some 300 processed agricultural commodities have been given zero or reduced tariffs. Ceilings have been fixed for the volume of imports of some industrial goods but these do not apply to the least-developed countries, who also have free trade in more than 650 agricultural products. Even more favourable preferential trade arrangements negotiated with Mediterranean, African, Caribbean and Pacific countries are described later. In total, 88% of Third World exports enter the Community duty free. The duties on a number of other products, worth 9 500 million ECU annually, have recently been reduced.
- Food aid : the Community sends foodstuffs to countries which request assistance in coping with serious food shortages. In 1984 more than 1.2 million tonnes of cereals and 216 000 tonnes of dairy products were supplied. The total value, taking account of transport costs and the difference between European and world prices, was 709 million ECU.
- Emergency aid : in 1984 the Community gave 121 million ECU to countries devastated by natural catastrophes and other crises, such as influxes of refugees. In response to the drought and famine in the Sahel, Ethiopia and other African countries, the Community and its Member States launched in 1985 special action programmes involving the shipment of 2.3 million tonnes of cereals.
- Special programme to combat hunger : launched in 1983 and worth 58 million ECU in 1984, this programme aims to finance projects intended to safeguard the natural resources of the Third World and to help poor countries to overcome food production and food security problems.
- Aid to non-governmental organizations : these groups often play a leading role in development and the Community has therefore increased its assistance to their projects from 2.5 million ECU in 1976 to 35 million in 1984.
- Financial and technical cooperation : the Community supports a range of development projects in Africa, the Caribbean and the Pacific, in Mediterranean countries and other parts of the Third World. Further details will be given below. Some idea of the extent of this aid can be seen in the fact that it was worth a total of around 1 200 million ECU in 1984.

The Lomé Convention

Sixty-six African, Caribbean and Pacific countries (the 'ACP countries') reached agreement with the Community in December 1984 on a new five-year convention (1985-90). This extends, strengthens and makes more effective the development

cooperation instituted by the first two Lomé Conventions in 1975 and 1979 and, before that, the Yaounde Conventions, which linked the Community to a score of independent African countries from 1963 onwards.

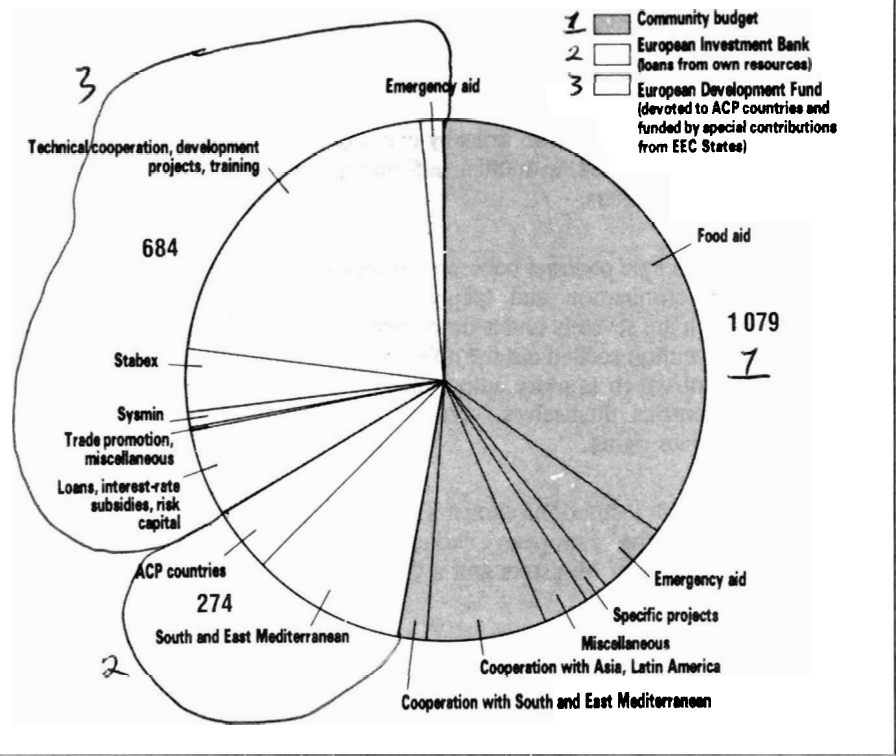
The Lomé Convention broke new ground in four ways :

- It gave stability to cooperation links by creating a legal framework, based on a contract freely negotiated, in mutual self-interest, between equal, sovereign but inter-dependent partners.
- It established a single contract between regional blocs, excluding economic and ideological discrimination and taking account of the special problems of countries which are severely under-developed and those of enclaves and islands. The third convention spelled out the objectives of this policy : to promote a form of development which is more autonomous, implemented increasingly by the benefiting countries themselves, serving the interests of their peoples and respecting human rights.
- It created common institutions allowing a permanent dialogue : a joint assembly of members of the European Parliament and ACP representatives, an ACP-EEC Council of Ministers and a Committee of Ambassadors.
- It instituted a global approach covering all aspects of cooperation : financial aid, trade concessions, stabilization of export earnings, agricultural and industrial assistance, etc. For the first time a group of industrialized countries established an integrated policy towards a group of countries in the Third World.

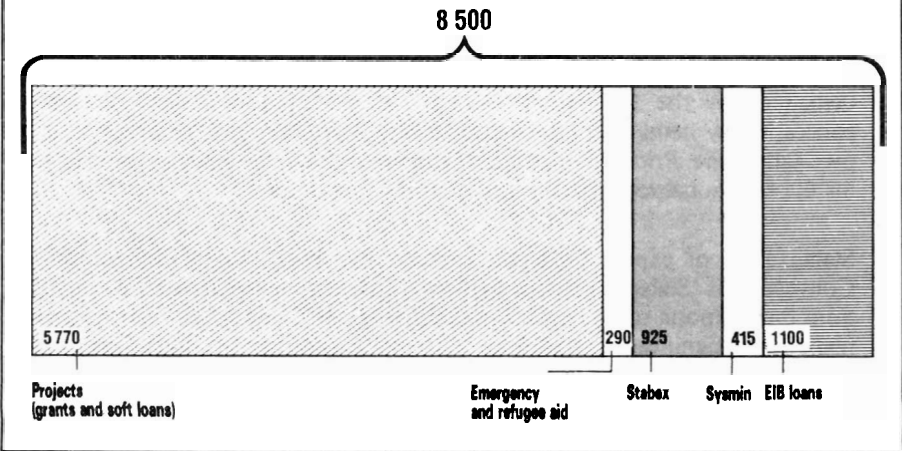
The main features of the Lomé Convention are :

- Trade cooperation : almost all (99.5%) of the products of the ACP countries, which depend on the Community for 40% of their trade, are granted duty-free access to Community countries. Reciprocal arrangements have not been demanded by the Community, which has gradually expanded the list of concessionary items and has even included products which compete with its own agriculture. Price and purchasing guarantees have, for instance, been agreed for the traditional exports of sugar from ACP countries.
- Stabilization of export earnings : perhaps the most original feature of the Convention is 'Stabex' which guarantees a minimum revenue to ACP countries from their exports of 48 basic commodities to the Community. These exports make up a significant proportion of the total earnings of ACP States. This 'insurance policy against lean years' operates through Community loans, or in the case of the least-developed countries, grants, to off-set significant reductions in export earnings, compared to the average of previous years. A similar system,

Community financial aid to the Third World
(in millions of ECU, 1984)



Aid to ACP countries in Lomé III, 1985-90
(in millions of ECU)



'Sysmin', provides finance for the upkeep or reconstruction of mining installations, even for their complete restructuring, when the mining potential of ACP countries is seriously threatened by unforeseen circumstances.

- Financial and technical cooperation : the European Development Fund (EDF) contributes to the financing of the development of ACP countries, on the basis of concerted programmes, not as in the past, individual projects. The major sectors to benefit are : rural development (45% of aid at present), industrialization, economic infrastructure and social development. The EDF also supports regional development, projects to assist small and medium-sized enterprises and 'micro-projects' of local importance. It intends to take a bigger interest in the restoration of natural equilibria : the struggle against drought and desertification, etc. The European Investment Bank (EIB) provides long-term loans from its own resources, with a 3% interest rate subsidy paid by the EDF. It also provides subsidiary or conditional loans, from the EDF's resources, and finances or part-finances feasibility studies for industrial projects, including those involving small and medium-sized business, agri-industry, mining, tourism, energy and productive infrastructure such as ports, railways, water-supplies and telecommunications. In total, Stabex and Sysmin included, 8 500 million ECU will be invested in the ACP countries between 1985 and 1990.
- Agricultural, industrial, cultural and social cooperation : a joint industrial development centre and a technical centre for agricultural cooperation have been established. The third convention places a greater emphasis on rural and agricultural development. The aim is to increase self-sufficiency through improved use of programmes, Community support for food strategies and, where necessary, delivery agreements for agricultural products. The convention also lays down principles for industrial cooperation and the measures necessary to encourage private investment. Cooperation is to be extended in areas such as energy, shipping, fisheries and initiated in new social and cultural fields : the development of the human resources and cultural identity of ACP countries and assistance for workers and students from ACP countries in Europe.

Mediterranean policy

The Community has entered into trade, industry, technical and financial cooperation agreements with most countries to the south and to the east of the Mediterranean : Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria and Israel. These agreements were negotiated between 1975 and 1977, within the framework of a global policy for the Mediterranean. They strengthened the links already established between the Community and these countries in the 1960s. Mediterranean countries are granted duty-free access to the Community market for industrial goods, a range of customs concessions for agricultural products and financial aid in the form of EIB loans as well as grants worth about 1 000 million ECU in the period 1982-86. The Community is currently studying ways of maintaining and strengthening its support for the development of these countries. Their exports will face increased competition when Spain and Portugal join the Community.

Agreements with Latin America and Asia

Less extensive agreements have been concluded between the Community and countries in Asia and Latin America.

- Asia : non-preferential cooperation agreements have been negotiated with countries of the Indian sub-continent (Bangladesh, India, Pakistan and Sri Lanka), with the ASEAN countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), with China, and, most recently, with North Yemen. An agreement with the Gulf countries is under consideration.
- Latin America : non-preferential cooperation agreements have been signed with Brazil, Mexico and the Andean Pact countries (Bolivia, Colombia, Ecuador, Peru and Venezuela). A trade agreement has been negotiated with Uruguay and talks are soon to begin with the countries of Central America, an area in which the Community hopes to assist in promoting both peace and development. Overall, the Community wishes to strengthen its cooperation with Latin America and has long supported moves towards regional integration.

Asian and Latin American countries benefit from the system of generalized preferences. The Community has reached agreements with many countries in particular sectors such as exports of textiles and craftwork. India, Bangladesh and Sri Lanka have been given special concessions for a number of their exports (sugar, jute and cocoa products). In addition, the Community gives food and emergency aid to Asian and Latin American countries and supports a range of agricultural and other products. Although still limited, there has been a sharp increase in technical and financial aid of this kind, which has risen from 45 million ECU in 1977 to 154 million ECU in 1984.

Community action : new approaches

Since the start of the 1980s the crisis in development has led the Community to re-examine the thrust of its policy. How can Community action be made more effective? How, in particular, can one break out of the vicious circle through which food aid, indispensable to deal with emergencies, can in the long run change local habits of diet, discourage local production and finish by deepening the problems it is supposed to solve? How can one avoid creating industrial projects, which though technically well designed, provide little more than shop-windows for the know-how of the donors and contribute nothing to the well-being of the bulk of the local population and nothing to generate local industry?

To face up to these difficulties, the Community has adopted the following approaches :

- In deciding on methods of development, external aid and the efforts of the beneficiary countries must be better coordinated. This must apply at all levels,

when deciding on means as well as long-term aims, at the operational as well as the planning stage. Policies must be defined clearly and pursued systematically. The Community wishes, while fully respecting the sovereignty of Third World countries, to enter into a dialogue on which policies to pursue. It intends to place the emphasis on the financing of global programmes rather than isolated projects.

- In deciding on the objectives of development, priority must be given to schemes which are self-supporting and better able to maintain themselves. Rural development is clearly the best route to adopt to overcome the underlying causes of world hunger. Food aid must be redeployed in order to assist this approach. An example of what can be achieved is the multi-annual programme to supply dairy products to India which has helped to set up a local processing industry which is in turn encouraging local production. At one and the same time, the Community must encourage industrial investment, keep its markets open to Third World exports, extend its efforts to conserve the environment of developing countries and help them to build up training and research facilities.

These new approaches are already traceable in the terms agreed for the third Lomé Convention. Their influence can also be seen in a restructuring of food aid. Except in cases of emergency, food shipments will from now on form part of concerted development programmes. In certain cases, it will be provided under multi-annual supply contracts. The Community is to give special assistance to a number of African countries – Kenya, Mali, Rwanda and Zambia – which have accepted the principle of coordination of external aid and their own efforts. The main object of these joint activities will be food strategies, defined by the beneficiary countries, which will make a coherent contribution to rural development, and in the long run, self-sufficiency.

The development of the Third World is a long haul. It is a vital task for the Community to pursue. By increasing its commitment and stating clearly its objectives and intentions, the Community intends to make a contribution worthy of the great issues at stake ■

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