

More trade than aid – Perspectives for European development policies

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In February 2000 the Fourth Lomé Convention, which regulates relations between the European Union and the countries of Africa, the Caribbean and the Pacific (ACP), expires. Recently, the success of this Convention has been seriously questioned, and the form of future cooperation between Europe and the ACP states, and other developing countries, is still open. At the end of 1996, the European Commission presented its "Green Paper on Relations Between the European Union and the ACP States on the Threshold of the 21st Century". Numerous development institutions, governmental and non-governmental ones, the political parties, and of course academics have joined the subsequent debate.

At issue is the revision and refocusing of the EU's overall approach to development policy against the background of a radically different geopolitical situation, increasing globalisation and growing scepticism among the general public about the effectiveness of traditional forms of development aid. The remit of the Lomé Convention makes revision necessary. It is focused primarily on the African states, a group of countries whose relative economic and political importance is in decline. Europe now conducts less than 3% of its trade with these countries. As trade with other developing regions of the world grows – Southeast Asia, the Middle East, Latin America and, above all, eastern Europe take almost 30% of Europe's exports –, so does the importance of other relations with them. *The new motto is: more trade than aid.*

This paper will attempt to analyse the political changes in the relationship between the EU and developing countries and discuss possible perspectives for reorientation by:

1. briefly reviewing the origins and course of the European development policies;
2. examining the structure and instruments of cooperation;
3. recalling constellation of interests in the 90s that necessitate a reorientation, and
4. evaluating the interests and motives that influence the formulation of Europe's future development policy.

I. **Background information: On the history of European cooperation with developing countries**

Looking back we can distinguish four phases of in European cooperation with developing countries:

1. The **first phase** runs from 1958 to 1972. The 1957 Treaty of Rome that founded the EEC does not mention development policy. At that time, almost all African countries were still European colonies. France and Belgium and Italy as former colonial powers, had an interest in reaching an associate status for their overseas territories, as this would extend the free flow of goods within the six European states to their overseas possessions. Furthermore, investment expenditures in the henceforth associated territories would be redistributed and carried by all members of the EEC. The special fund created for this purpose, the European Development Fund (EDF), is still the channel for about 50% of all EU spending on development.

After the European colonies had gained independence, the EEC offered to extend without change the conditions for the free flow of goods and capital as well as the flows of development aid, though codified in new agreements between now formally equal sovereign states. In effect, colonial status was rolled over into neo-colonial relationships, a situation which exists de facto to a large extend still today. France, in particular, had solid economic and political interests in prolonging cooperation, a policy that, as statistics show, paid off handsomely.

2. The **second phase** from 1973 to 1979 is marked by the UK's entry into the EEC. The major consequence for the EEC's policy of association was its global extension i.e., beyond the French zones of interest that focused primarily on West and Central Africa. The association of the English-speaking former colonies in Africa was a preliminary step towards the so-called Lomé Convention signed in 1975. This agreement granted special trade preferences and development aid to a number African, Caribbean and Pacific (ACP) countries.

In the first half of the 1970s, the EEC's Mediterranean policy also took shape, resulting in a series of bilateral cooperation agreements with states bordering on the Mediterranean Sea.

Last not least, this phase of global opening was also marked by greater cooperation between the EEC and the countries of Asia and Latin America.

3. The **third phase** lasted ran from approx. 1980 to 1992. Once the institutional structures were in place, the associated countries became more and more self-confident and demanding. Co-operation focused more strongly on the interests of the developing countries and the question of their say in formulating the targets and plans of development policies. At that time, the Group of 77 issued increasingly urgent calls for a new economic world order. Their demands were given added weight by two influential instruments, the European Parliament, which was directly elected for the first time in 1979, and the so-called Pisani Memorandum of October 1982, which rethought EC cooperation and development, and made a number of concrete recommendations which, among others, particularly stressed the partnership idea and the necessity of political dialogue. These considerations got their own momentum some years later when critics about corrupt and irresponsible governments led to a discussion on economic and political conditionalities of development aid ending in a number of structural adjustment programmes.

The **fourth phase** was inaugurated by the signing of the Treaty of Maastricht in 1992. Not only did the EU member states reach agreement on the need for a "European development policy", but economic development was defined as a separate policy area in a separate chapter (XVII) of the new EU Treaty, with 5 articles – Arts. 130 u to 130 y – devoted exclusively to it. For the first time, the EU was called upon to formulate community goals (EU development aid as a supplement to the development aid of the member states; harmonious, gradual integration of the developing countries into the global economy; emphasis on fighting poverty). The overall objective can be summarized by the 3 "Cs": "co-operation, coherence and complementarity".

One can maintain, that before Maastricht, each country pursued its own development policy. Maastricht tried to change that. But even now, it would be an exaggeration to speak of a uniform, consistent European development policy. The history of the EU- development policy is characterised by a mix of different actions and a juxtaposition of various responsibilities

and competences which allow, if at all, only incremental and pragmatic changes - certainly not a wholesale reform. This, of course, also effects the post-Lomé relations to the developing countries.

II. Competencies and instruments of EC/EU development policy

To give you an idea what we are talking about the following matrix summarises the **functions and beneficiaries** of EU-development policy (cf. chart).

The most important *policy instruments are trade policy, policy for primary products (raw materials), financial and technical cooperation, food and emergency and subsidies for NGO projects.*

At present, groups of developing countries benefit on a sliding scale. The most favoured group of countries is the **ACP states**, with whom relations have been enshrined in an *aid-and-trade-package, the Lomé Conventions*, a series of far-reaching agreements covering trade, raw materials and development policy. *The underlying principles of the Convention which was renewed and expanded every five years has always been: the development of former colonies on a collective basis, facilitated by special treatment in the european market for a range of primary, processed and manufactured goods.* The number of signatories has risen from 49 to 71 (South Africa has qualified membership). The current agreement, Lomé IV, has a duration of 10 years. It will almost certainly not be extended when it expires in 2000. It is the most important agreement in the field of European development policy, involving more than 1/3 of all members of the UN and almost 50% of all development spending by EU member states. The agreement covers five categories:

- **Trade policy** is the most important element of cooperation. The initial intention was to promote economic growth and development by creating a common market with reciprocal access for industrial and agricultural goods. However, these proposals met with strong resistance on both sides:
On the one hand, because of the enormous differences between the partner group's levels of development, the developing countries insisted, and were granted, import protection in the form of one-sided preferences for their exports, even though this was in contravention of the GATT rules.

On the other hand, demands of the European agricultural lobby for protective tariffs or import quotas on competitors' cheap agricultural products resulted in a number of special regulations (quotas).

- The instruments of the **commodities policy**, two agreements to support earnings from raw materials – *STABEX* for agricultural products and *SYSMIN* for minerals – gave the ACP countries special privileges. Both agreements provide for equalisation payments in the form of subsidies or transfers to stabilise earnings from raw materials with a view to protecting in particular the poorest developing countries, often dependent on a single source of income, from sudden falls in revenues owing to fluctuations in commodity prices.
- **Development cooperation, i.e., financial and technical assistance** in the form of, e.g. infrastructure, rural development or educational and health programmes, is another category in which ACP states get preferential treatment: this group receives higher subsidies pro rata than other groups of countries.
- **Food and emergency aid** – including assistance for refugees – was organised later than the other programmes. In recent years, however, the budget for this category has surged to cope with the rising number of natural catastrophes and the consequences of political crises and civil wars (above all in Somalia, Liberia, Rwanda and Congo/Zaire).
- Mention should also be made of **EU subsidies for NGO projects**, a programme initially reserved exclusively to the ACP countries, but recently extended to the states of central and eastern Europe.

The **second group** that receives special treatment under current EU development policy is the **Mediterranean countries**. Bilateral trade and cooperation agreements were signed with the individual countries on the basis of the "Global Approach to Mediterranean Policy", a position paper adopted in 1972. At a meeting in Barcelona in the early 1990s, the EC decided, as a "strategic response" to economic and demographic developments in the Mediterranean region, to upgrade this cooperation.

Cooperation with the **remaining developing countries** of **Asia** and **Latin America** is ad-hoc, limited for the most part to trade policy, and falls far short of the expectations of the countries concerned. These states would like to benefit from the special trade preferences and stabilisation programmes that are part of the preferential treatment accorded the ACP states.

Since the 1980s, several general cooperation agreements have been signed with a number of individual countries and regional organisations (Andes Pact, Mercosur).

The final group of countries receiving preferential treatment is the states of **Central and Eastern Europe**. The first programmes were drawn up for Poland and Hungary at the end of the 80s, and have been extended successively to include the other states of central and eastern Europe as well as the successor states of the Soviet Union (CIS). These agreements signal a significant change in policy. In financial terms alone, the agreements on association and European integration signed in the 1990s are of quite a different magnitude. Whereas development aid and cooperation was concentrated on the states of sub-Saharan Africa, the Caribbean and the Pacific up to 1990, since then the focus has shifted to the countries of eastern Europe.

Finance for the different instruments and measures comes from various sources, reflecting the creation of different policies at different times based on different articles of the EEC and EC treaties and, hence, run by different EU departments. *The association policy under the Lomé Conventions* (financial and technical assistance as well as the STABEX and SYSMIN programmes) *is financed by a special fund, the European Development Fund (EDF)*. Assistance for the Mediterranean countries and the countries of Asia and Latin America is funded almost entirely out of the general EU budget. The European Investment Bank (EIB) enjoys a special status. It provides low-interest loans for development projects, operates on the principles of private enterprise, and raises capital by issuing bonds on the capital market.

In terms of **financial volume**, the EU is a medium-sized donor, currently providing about USD 5 billion in development aid every year. The development contributions of the EU and the individual member states taken together, however, account for almost 50% of global development aid, whereas the other two large donors, Japan and the USA, each contribute only about 17%.

III. The end of privilege: New constellations of interests and options for development cooperation

For a long time, the development policy of the European Community was both presented and accepted as exemplary, in contrast to, say, the EEC's agricultural policy. Its long-term, supranational approach based on partnership and, in the Lomé Conventions, institutionalised dialogue, was viewed as paradigmatic by other bodies. Correspondingly, the financial resources for the EU's development policy were, until very recently, increased at regular intervals.

In recent years, however, the number of critical voices has been growing. Evaluations have shown that the goals of the cooperation programmes are no longer consistent, the efficiency and sustainability of development projects are inadequate and administrative structures and implementation procedures need to be reformed. It is time - as the Green Paper has demanded - to refocus and restructure. There are four important reasons for this:

1. transformation of the geopolitical map (end of the Cold War);
2. new trade agreements (GATT / WTO);
3. changes in the goals of development policy; and
4. the need to reform policy administration.

On 1: Transformation of the geopolitical map

With the end of the Cold War, the role of developing countries as zones of influence in the tug-of-war between East and West changed. As the foreign policy aspect of development policy ceased to reflect the confrontation between political blocks, the developing countries were deprived of the leverage to play one superpower off against the other. From the point of view of the EU, this transformation rendered obsolete two important reasons for the Lomé Convention: the strategic interest in tying the member states to the western alliance, on the one hand, and guaranteed supplies of raw materials vital for the economies of the EU, on the other. In this connection, it is useful to recall that the first Lomé Convention between the EEC and the ACP countries was signed in 1975, two years after the oil-price shock persuaded the EEC of the necessity to guarantee supplies of raw materials through long-term agreements.

Today, after Communism has collapsed, eastern Europe – the EU's immediate neighbour - is strategically significant as a market and a source of raw materials. Consequently, there is less need for a policy that grants privileges to the ACP states.

Finally, 40 years after the Treaty of Rome (1957), the political, economic and military importance of the ACP states is negligible. Even France has come around to this view, as French policy towards Africa clearly demonstrates. Africa looks increasingly like an expensive colonial hangover. Specific criticisms of the Lomé Conventions include the creation of patronage systems, the unwillingness to pursue economic reforms and innovation, and the inability of many countries to democratise and decentralise. EU documents, in particular the brochure "Run-up 2000", reflect all too clearly the shift in regional priorities. *Africa is in danger of being marginalised.*

On 2: New trade agreements

A series of GATT conferences (Kennedy, Tokyo and Uruguay Rounds) gradually negotiated a body of agreements – now administered and monitored by the World Trade Organisation (WTO) – that enshrine the principle that one-sided trade preferences may not be granted ; the corollary is the principle of reciprocity. Hence, the EU will be forced to abolish most of the trade privileges it has granted the ACP states. The only exceptions are transitional regulations until multilateral free-trade agreements can take effect. In other words, it is almost impossible to renew the Lomé Conventions (Lomé V) without changing the trade preferences currently in force.

On 3: Changes in the goals of development policy

Like the World Bank and other large donor institutions, the EU has also had to rethink its development policies after critical evaluations of cooperation in practice. A mid-term review of the Lomé IV Convention and, above all, the Green Paper published at the end of 1996 produced scathing assessments of current development policies and recommended radical changes. A crucial criticism concerned poverty, which, after more than 30 years of development cooperation, had increased in most ACP states. Sustainable development has been generated in just a few states at most. Trade preferences – and supports for commodity prices – had promoted neither appreciable change in production and export structures nor greater diversification and industrialisation. All in all, they had, at best, cemented the status quo. In response to these conclusions, the EU, like the World Bank and IMF, has insisted on the implementation of structural adjustment programmes with the aim of drastically reducing

state expenditures, introducing free-market policies and promoting export-oriented industries in the ACP states.

Particular value is attached to the so-called political conditionalities. To put an end to the practices of diverting funds from their intended purposes or using them to maintain corrupt political castes in power against the interests of the population, democracy and the rule of law are now posited as essential elements of development, accompanied by suggestions for institutional reforms ("decentralised cooperation") to promote private enterprise and good governance.

On 4: The need to reform policy administration

The *"Mid-term review of the Lomé Partnership"* finally has criticised the development administration, including the patchwork nature of development policy in its current form. For instance, apart from the Lomé Convention, there are bilateral cooperation and association agreements with 12 Mediterranean states, cooperation agreements with 15 Asian and Latin American states, and, over and above these, separate agreements with three regional pacts, viz. the ASEAN states, the Andes Pact and Mercosur. All of these agreements involve different conditions on cooperation in the fields of trade and economic development. This structural fragmentation and the absence of mechanisms of harmonisation urgently needs to be revised if development policy is to comply with the demands for greater coordination and consistence incorporated in the Treaty of Maastricht of 1992.

Finally, the lack of coordination and consistence is rooted in the complexity of the decision-making processes of the European administrative bodies. Even without the principle of consensus, any process that involves such a large number of **actors** (the governments of the member states in the Council of Ministers, the European Commission, the European Parliament, the governments of the partner countries and interest group lobbies) almost inevitably reaches unsatisfactory compromises in the majority of decisions. Furthermore, the content of almost every agreement affects the interests not only of different **political departments** (development; trade; agricultural, foreign and security policies), but also of different **fields of responsibility** within the community and the individual member states (community responsibility, shared responsibility – Lomé, coordination responsibility). These conditions are hardly conducive to a new and consistent EU development policy.

IV. Evaluating the interests and motives of European development policy and speculations about the future cooperation policies

1. A critical review of 30 years of European development policy must conclude that the policy of cooperation has not achieved its objectives. In the poorest countries in particular, the situation has not only not improved, but has worsened. Trade preferences and commodity-price-stabilisation programmes have helped very few countries: most ACP countries are poorer than ever, and their economic structures have not become more diversified. Instead of self-sustained growth in recent years the greatest growth has taken place in food aid and emergency aid.
2. The paucity of efficiency and sustainability in European development policies is inversely proportional to the positive perceptions of European cooperation. Despite the many failings that have been apparent for years, the EU policy was marketed as an exemplary, pioneering achievement, and was widely accepted as such among the population of the Union. One explanation for this is the lack of public control, and the lack of political bodies that had an interest in the monitoring of success. Moreover, the division of responsibility for development policy between 7 actors within the commission (DG I, DGIA, DGIB, DG II, DG VIII, DGXII and ECHO - European Community Humanitarian Office) makes it difficult to exercise effective control.
3. EU development policy and its instruments have helped to entrench privileges. In most of the countries receiving development and cooperation assistance, the governments and political castes regarded a large part of the European aid as a personal windfall. Similarly, the former European colonial states, above all France, exploited European development policy to feather their own nests, e.g. by awarding and implementing innumerable economic development contracts.
4. In the conflicts between political interests at the level of European government, development policy is a low priority. As controversial as agricultural policy is, it has always been given precedence over development policy. Much the same is true of trade and structural policies. And if the implementation of crucial goals of internal or monetary policies clash with those of development policy, the latter have always been sacrificed in the interests of some compromise of greater political significance.

5. Any future EU development policy must take account of the above considerations. This is why the negotiations on future association arrangements are so difficult. Each member country has made proposals and the commission has produced guidelines as policy orientation for post-Lomé negotiations. The guidelines envisage the replacement of the current complex system of a 'pyramid' of degrees of preferences with a two tier differentiation: The LLDCs would enjoy a 'super GSP' negotiated along Lomé-lines, while all other developing countries receive a less generous, unilateral GSP for a number of years. It is envisaged to reach reciprocal Free Trade Agreements (FTAs) with the majority of countries as soon as possible.

The main problem of the present consideration is that the Lomé-Countries are not in the interest of the ACP-countries and are not in line with the previously negotiated development goals. Consequently, the Lomé-Countries are not prepared to accept the proposals. The discussions are in a deadlock. Without going into detail, some general conclusions and speculations can be made:

- A Lomé is very unlikely to come. But nor will cooperation cease entirely. A political umbrella agreement, an "Understanding on the EU-ACP Partnership for Development" that will supersede the Lomé Convention, is currently being drafted. It will provide a framework for "regionalised" agreements with the countries of Africa, the Caribbean and the Pacific. It may also allow for a distinction between the poorest, the least developed countries (LLDC) and the less developed (LDC), which could enable the EU to continue to grant the LLDCs special conditions. Other non-Lomé LLDCs might be included. Finally, provision will also be made for individual agreements (South Africa) and the renewal of protocols (sugar, bananas, beef).
- The new regulations have to meet the demands of the WTO, which, in the interest of promoting a general opening up of markets, will no longer allow unilateral preferences that conflict with the general goal of free trade. For the poorest countries, there will be temporary transition regulations based on their level of competitiveness (e.g. ten year waiver).
- For political reasons, the Mediterranean countries will benefit from closer cooperation. It is intended to negotiate a FTA between them and the EU as soon as possible. In view of the political differences between the individual Mediterranean

states, it has been decided to retain the system of bilateral agreements, rather than press for a multilateral solution.

- Policy trends regarding eastern Europe are clear. Preparations for negotiations on the membership applications of Poland, Hungary and the Czech Republic are well advanced. The other states of eastern Europe will receive greater cooperation and support.
- The structural draft finally proposes removing the strict distinction between expenditures funded by the EU's general budget and finance from the EDF. Long-term financial planning makes also provision for some direct budget transfers to developing countries as an alternative to preferential trade treatment. This will almost certainly be a controversial point in the drafting of the future agreement.

In conclusion, the shape of any future EU development policy will be conditioned by general European considerations, in particular the balance between the interests of the large European states. France has always profited from the policies towards the ACP countries, and will probably continue to favour this cooperation. The German federal government is hardly likely to oppose French wishes on this point in the negotiations ahead. Notwithstanding objective considerations, this political assumption could well become the crucial factor in formulating a new development policy.

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