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**EUROPEAN INTEGRATION
AND THE THIRD WORLD**

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1. Introduction

Project 1992 aims at removing the last obstacles to the free movement of people, services, goods and capital within the EC, hence constituting a substantial contribution to the acceleration of the process of European integration. It has captured Europe's imagination and has galvanized economic activities and plans generating a new 'Eurooptimism', after the stagnation of the 1970s and early 1980s, rightly labelled "the Community's dark age"¹. During that period grew the complains by business leaders about the 'costs of non-Europe', i.e. the negative impact of market segmentation on innovation, demonstrated also by European direct foreign investment (DFI) shifting towards the USA.

Therefore, Project 1992 was conceived for recreating the EEC's dynamism and to counteract growing foreign, and particularly Japanese, competition, in most technologically advanced industries. Together with Project 1992, first the ecological movement and then Perestroika, with the collapse of the regimes of Eastern Europe (EE), have emerged as powerful forces which are contributing to reshaping the future of the Old Continent. The process resulting from the interactions between these three forces is simultaneously a source of both hopes and anxieties, the latter reinforced by the rapidly proceeding German unification.

Even though the latter seems to have contributed to the acceleration, for the time being, of the Community's process of integration, it remains unclear what the consequences are of the massive transfer of resources required for the restructuring of EE's economies. Such a transfer could easily contribute to increased inflationary pressure within the EC, particularly if it is not accompanied by adequate restrictive policies of public and private expenditure, therefore tightening the fiscal screw. The productive relocation in EE that this intervention implies, could also aggravate the unemployment problem within the EC, even though it may, at the same time, contribute to moderate wage pressures, and, therefore partly mitigating the inflationary build up. These developments seem to have started complicating and modifying the direction of the process of European integration: for the EC the stakes have

¹ S. Hoffmann, "The European Community and 1992", Foreign Affairs, 68, 4, 1989, p. 29.

been raised and the apparently simple choice between 'deepening' and 'widening' has acquired many other dimensions.

Most of the measures which make up Project 1992 should have neutral results for the rest of the world, yet the completion of the single market will not fail to have substantial repercussions on the EC's role and position within the world economy and therefore on the development efforts of many countries of the Third World (TW). Once the process of European integration is seen within the wider context of the world economy, it also appears that the latter cannot maintain its equilibrium without tackling the following problems:

- (i) the management of international indebtedness, which concerns not only the TW, but also the USA;
- (ii) the economic growth of the TW, which also implies bravely facing the thorny issue of birth control;
- (iii) the improvement of the global environment.

Fortunately, the international co-operation, crucial for attempting to cope with these problems, is presently strengthened as result of the lessening of East-West military tensions. Consequently so to are the conflicts lessened within the TW, with the possible reduction of military expenditures and therefore release of the peace dividend for alternative uses², even though the North's arms suppliers facing shrinking domestic markets may be tempted to increase deliveries to the South. Essential for tackling these problems is, however, monetary stability, without which the lowering of East-West tensions and the diminished role of the superpowers, may tend to sharpen and exacerbate economic quarrels, as also indicated by the worsening of the US-Japanese commercial relations.

² According to G. De Michelis, Italian minister of foreign affairs, disarmament should liberate at least 0.8% of Western Europe's GDP; International Herald Tribune (IHT), 25.3.1990.

2. Restructuring of EE's economies

Together with Project 1992, and often in competition with it, two other broader economic schemes are emerging in Europe: the European (or Common) Space (EES) and the wider pan-European scheme implied in Gorbachev's Common House. The first involves EC with the six countries grouped in EFTA, the second embraces the whole of Europe³.

Delors has attempted to reconcile these various processes with his theory of the three concentric circles, with the tightly integrated countries of the EC at the center. With this interpretation Delors, and others, tend to justify the acceleration of the EC's deepening in order to better control and regulate the process of liberalization taking place in EE and therefore resist the call to submerge the Community - i.e. its widening - into a broader, less defined and less controllable pan-integration of the whole continent.

Moreover, while the rapid evolution of events in EE is radically modifying the situation of these countries and consequently their relationship with Western Europe, also becoming increasingly evident are the economic and environmental disasters left behind by the previous regimes and the difficult social and political situations, complicated by ethnic tensions, which characterize these countries. The dramatic situation of many EE countries forces the West to look for the means to guarantee their economic growth - which "has come to a halt virtually everywhere, and in some cases GNP is shrinking"⁴ - and therefore smooth their transition from socialism to the market economy.

The OECD has underlined, at the beginning of the year, that the transformation taking place in EE "will probably be beneficial in the longer run", but it has also added that "the initial impact on the region's financial position...has been mainly negative. In 1989 domestic performance worsened and further weakening seems inevitable before changes in economic structure can produce

³ From the perspective of the TW, Gorbachev's Common European House becomes, according to Prof. Manning Marable of the University of Colorado, "a new manifestation of Eurocentrism", as element of the Soviet bloc unite with the West to control TW markets, raw materials and a cheap labour force ; IHT, 13.6.1990.

⁴ Deutsche Bank, Special Eastern Europe, Economics Department, February 1990, p. 11.

any tangible improvement". In fact, the current account balance weakened appreciably, while the rate of growth of the region's external debt, already rising since 1985, has further increased. Therefore, net indebtedness has reached \$ 115 billion in 1989 from 71 billion in 1985 (82 and 56 billion, respectively, without the USSR) while its service absorbs 35% of the region's exports (46% without the USSR)⁵.

Till now, the Western response to EE's events has consisted in an emergency programme of one billion dollars to which the EC has proposed, last January, to add another one billion, while it has decided to raise its budget of another three billion in order to finance their intervention in EE to the whole of 1993. Furthermore, the European Bank for Reconstruction and Development (EBRD) has been rapidly created with a capital base of \$ 12.5 billion, of which EC has subscribed 51%.

The cost of the reconstruction of EE's economies and the necessary contribution of the West can only be guessed, but given the order of magnitude involved it cannot fail to influence the implementation of Project 1992 and the relationship between Europe and the TW. In any case, proposals are being made on how to convert Project 1992 into a pan-European scheme which would foster commercial interactions among the about 800 million that populate the Old Continent. Among the various proposals so far voiced, one refers to the utilization of association agreements similar to those offered by the EC to the Mediterranean and a group of African, Caribbean and Pacific (ACP) countries. The Commissioner Andriessen has declared that the Community was ready to discharge its responsibility towards the rest of Europe by means of "a series of very extensive 'second-generation' association agreements" which include free-trade areas, economic co-operation, aid and joint programmes in

⁵ OECD, Financial Market Trends, 45, Paris, 1990, pkg. 11. Table 4 p. 20, Table 9 p. 26. Total net debt is estimated at over \$ 120 billion by the Deutsche Bank (op. cit., p. 56), of which \$ 13 billion that of GDR. However, more recent data show that GDR's debt reaches more than \$ 23 billion or about DM 40 billion.

the field of environment, nuclear safety and education⁶. East-West trade will be boosted and it is expected to grow rather faster than world trade, with the EC, but also EFTA, expected to benefit particularly from this trade expansion. The commercial position of these two regions "could be further improved if eastern European countries were to apply for associate status or membership in these organizations, followed by the elimination of further barriers to European trade"⁷.

Other proposals have been suggested to the countries of EE, which clearly seem to prefer the EC, to join EFTA, which does not require the partial relinquishing of their national sovereignty or of their membership in the Warsaw Pact, the latter viewed mainly as a guarantee against the revanchisme that a greater Germany may eventually generate.

The fact is, however, that the countries of EE must not only abandon central planning for market economics, but also transform themselves from backward, largely rural, economies into modern and internationally competitive ones. East-West trade is actually equivalent to only 40% of OECD trade with the four newly industrializing countries (NIC) of South-East Asia, while some 40% of the former exports to the West are mainly fuels, with USSR accounting for 80% of this⁸. Substantial, therefore, appears the cost to, and the many implications for, Western Europe of helping these economies to obtain the technology, the managerial capacity, the organizational expertise and the financial means

⁶ Newsweek, 12.3.1990, p. 9. On April 28 the Community said it was ready to start a second stage of economic relations with EE, namely talks for association accords that also cover political consultations. Meanwhile, the EC has signed in May with Czechoslovakia a new trade and co-operation agreement which, aside from replacing the agreement relative to industrial products signed in December 1988, is seen by the Czech authorities as the stepping stone to an association agreement and then to their request for admission to the EC. Also in May Bulgaria and GDR signed a similar agreement with the EC, but the latter will be changed once the two Germanys create an economic and monetary union. The 10-year accords now existing with these six countries of the EC provide for economic co-operation in many sectors, including farming, the environment and research projects, easing curbs on imports of EE's goods and raising two-way trade - presently about \$ 50 billion, of which half is between the USSR and the EC -.

⁷ Deutsche Bank, op.cit., p. 70.

⁸ Deutsche Bank, op.cit., pp. 66 and 68.

required for overcoming the disastrous inheritance left by the regimes now in the process of disappearing.

Aside from opening the common market to EE's products, with clearly negative consequences for producers from within and from without the EC, the financial resources required by EE can be grouped in the following categories:

- (i) grants or loans directed mainly to building up EE's foreign exchange reserves to help in stabilizing exchange rates and establishing convertible currencies;
- (ii) grants or loans to help finance a social safety net for the region;
- (iii) cancellation of most of the EE's debt owed to the West⁹;
- (iv) long-term finance for development, particularly for the construction or modernization of infrastructure and for environmental control - the cost for cleaning up only the RDT is estimated at DM 2 billion ¹⁰;
- (v) creation of a revolving fund in order to finance the system of direct compensation needed to facilitate commercial interchange among the economies of EE - i.e. a clearing union similar to that European Payments Union which proved crucial to the reconstruction of Western Europe after WWII. To this effect Czechoslovakia's foreign minister has unveiled, in a speech delivered last May at Harvard University, a plan according to which DCs should advance to the EBRD \$ 16 billion over three years. EBRD would credit it to the USSR which could use it to buy industrial products from Poland, Hungary and Czechoslovakia. In turn the latter countries could utilize their revenues to import from the DCs. Like the Marshall Plan, the USSR would match the dollar credits in rubles, thus creating a fund for financing investment in its industry, under EBRD's coordination. The EC Commission's latest estimates finds

⁹ At the Washington meeting of the Bretton Woods Committee last May the US Senator B. Bradley and the Italian Minister of foreign affairs G. De Michelis have suggested a substantial forgiveness of some of the \$ 100 billion in government-to-government debt owned by EE.

¹⁰ The Economist, 3.3.1990, p. 68.

that, excluding USSR, the countries of EE need, before the end of 1993, 15 to 20 billion ecus in order to finance their trade and investment. The EC is already discussing a plan to help EE's six minor economies to break away from barter-based trading and to start using convertible currencies.

On top of the resources needed for the restructuring of EE's economies, there is German unification's cost which has been put at anything between 500 billion to 1.1 trillion deutsche marks (DM)¹¹. Concrete measures already taken by West Germany (FRG) include DM 2 billion, to be extended to 6 billion, for concessionary loans, primarily to small and medium sized businesses, of which 1.3 billion would be for setting up businesses in East Germany (GDR), 2 billion for capital investment in environmental protection and the same amount for plant modernization, 0,7 billion for tourism. A further 1,5 billion is needed in guarantees for shipments from FRG to GDR. Another 300 million would be for environmental protection; and an increase of DM 100 million from 1990 in the flat-rate postal service payment to DM 300 million a year to help expanding GDR's postal and telecommunications systems¹². According to Deutsche Bank's estimates, FRG's public funds to be transferred annually to RDT would amount to about DM 30 billion, at least for the initial years, while The Economist estimates the gross bill for economic and monetary union at DM 60-70 billion for next year¹³.

The latest measure announced by FRG in May is the establishment of the 'German Unity' fund of 115 billion DM, most of which is to be raised, over a period of 4,5 years, on the domestic capital market, mainly by means of various certificates and debentures in order to avoid the Bundesbank's control. The adoption of such a procedure for financing the fund derives from Chancellor Kohl's insistence to exclude the use of fiscal measures - which would force

¹¹ Newsweek, 26.2.1990, p. 11.

¹² Deutsche Bank, op.cit., p. 35.

¹³ IHT, 30.3.1990 and The Economist, 26.5.1990, p. 73.

the FRG to consume less so as to enable GDR to consume more¹⁴.

Having excluded the issuing of national bonds and the fiscal squeeze, the growth of the monetary base must necessarily be accompanied by a tight monetary policy in order to contain within acceptable limits the inflationary pressure which cannot fail to materialize. On the whole, higher interest rates must then be expected in Germany which, given the role of the DM within the European Monetary System¹⁵ and the world economy, in turn will necessarily force many other countries to follow suit. Rather aptly a top Kohl adviser has stated that "there is an inflationary push if we do nothing and let millions of East Germans come here, where they will need housing and social benefits. And there will be inflation if we pay to make life acceptable for them in the East"¹⁶.

All considered, the most optimistic estimate of the overall transfer deemed necessary for the restructuring of EE is at least 1/2 of the GDP of the G-7 countries, namely more than \$ 70 billion annually. For the transfer to take place an equivalent surplus must materialize in their current accounts. The total current account of the G-7 shows instead a \$ 66 billion deficit, therefore the execution of such a transfer implies a rather substantial turnabout of the behaviour of these economies.

GDR's entry into the EC - as it becomes part of the FRG - has consequences also for the Community's budget; only the payments related to the structural funds's contributions could easily reach 4 billion ecus.

One way or another, the recent events are profoundly altering the conditions

¹⁴ Also according to U. Cartellieri, member of the Deutsche Bank's board, FRG can do its share in developing the RDT without either raising taxes or jarring capital markets with higher interest rates; IHT, 30.3.1990. On this point see also The Economist, 26.5.1990, p. 73.

¹⁵ "In the EMS the exchange rate commitment has led to an implicit agreement giving the role of fixing the system-wide money stock to the German Bundesbank"; P. De Grauwe, International Money, Post-War Trends and Theories, Clarendon Press, Oxford, 1989, p. 203.

¹⁶ IHT, 23.2. 1990. As the supply of housing in FRG is unlikely to keep pace with the vertical rise in demand, sharper increases in construction prices and rents can be expected in the next few years.

on which Project 1992 was based, namely a moderate but stable rate of economic growth, low inflation and a stable DM. If to these is added the eventual continuous increase of the oil prices (by various sources considered the likely characteristic of this end of century¹⁷) the framework within which Project 1992 is to be implemented becomes rather different. Furthermore, the restructuring of EE is going to absorb the EC's interest, and a large share of its resources, for many years to come, contributing to the shaping of Europe's integration process and possibly to the further marginalization of many parts of the TW.

Yet, the West's growing involvement in EE goes beyond the question of aiding it and touches upon a very strong self-interest. Particularly for Western Europe participation in EE's restructuring represents the key to its revival and, possibly, its last chance to regain a more central role within the world economic and political system.

3. Project 1992 and the Third World

3.0. Project 1992

The Single Act of 1986 has accelerated what can be rightly considered the most sophisticated example of regional economic integration, causing a profound reorganization of the member countries' socio-economic structures and requiring a substantial delegation of power to supra-national or federal institutions.

In assessing the overall impact of this process on the TW, one must examine all the possible effects of various and different policies, most of which have not yet been finalized and/or are emerging from discussions and agreements taking place in separate fora, like the Uruguay Round of GATT, the Lomé Convention, the General System of Preferences (GSP) and the Multifibre

¹⁷ See the declarations of BP's Chairman, Cambridge Energy Research Associate of Massachusetts, executive vice-president of Chase Manhattan, Energy Information Association of the US, in Newsweek, 12.3.1990.

Agreement¹⁸.

Being that there are few facts to consider, tendencies, trends and even perceptions must do. There is no doubt that less developed countries (LDC), at least those that can afford to consider the developments taking place within the international scene, are quite worried about what they see. Meanwhile, little interest appears to exist in Europe about the possible effects of Project 1992 on the TW¹⁹, and even less about the implications of the wider integration which may result from EE's evolution. The EC Commission has not felt the need to prepare a white paper on these issues, a fact that while may undermine the often defended view of EC's unique relationship with the TW, it contributes to strengthening the opposite view that consider ACP countries' position vis à vis the EC mainly as a form of 'collective clientelism'²⁰.

In any case the EC's external dimension, now made more relevant by the attempt to complete the internal market, revolves around the following issues:

- (i) marginalization of or integration with the outside world, an issue which, for what concerns the TW, relates to the old dispute of whether the EC should pursue a 'global' or a 'regional' approach; a dispute which, in turn, relates to the implications of the policies utilized towards the TW²¹.

¹⁸ Also S. Sideri, La Comunita' europea nell'interdipendenza mondiale, Edizioni Unicopli, Milan, 1990, especially ch. 8.

¹⁹ See also J. Pinder, "Enhancing the Community's Economic and Political Capacity: Some Consequences of Completing the Common Market", R. Bieber et al., 1992: One European Market?, Nomos Verlagsgesellschaft, Baden-Baden, 1988, p. 49.

²⁰ J. Ravenhill, Collective Clientelism: the Lomé Convention and North-South Relations, Columbia U.P., New York, 1985.

²¹ While some saw the EC's privileged relation with the TW largely as exploitative and fostering its fragmentation and dependency (Galtung), others concluded that liberal and multilateral trading could serve much better the TW's interests (Pomfret); K. Featherstone, "The Mediterranean Challenge: cohesion and external preferences", in J. Lodge (ed.), The European Community and the Challenge of the Future, Pinter Publishers, London, 1989, p. 186.

- (ii) the EC's reliance on its greater market or on international trade, or, in simpler and classical terms, whether the EC integration will be dominated by
- (a) trade diversion, i.e. the shrinking of non-EC producers' export and market shares as result of both more aggressive competition and lower transaction costs in the integrated EC market; or
 - (b) trade creation, i.e. the growing demand for non-EC countries' exports as result of the greater efficiency and correspondingly higher real income within the EC. This effect is more likely to materialize when the integrating market already absorbs large proportions of externally supplied goods, as in the case of the EFTA countries, but hardly of many LDCs.

It is on this trade creation effect that rests the so-called 'locomotive function' attributed to the EC vis a' vis the world economy. Yet, one must be cautious with interdependence as it can also facilitate the transfer abroad of the burden of the internal adjustment.

There is a third effect that is connected to integration, namely the

- (c) spill-over effect in the home markets of the non-EC countries. This effect can take two forms:
 - (1) if EC and non-EC markets are less than perfectly segmented, then increased competition within the EC will reduce profit margins in non-EC markets to the advantage of their domestic consumers, but possibly to the detriment of their capital accumulation;
 - (2) increased competition in export markets may force non-EC firms to abandon some of their products, which certainly is not a gain for the country concerned²². Although effect (c) does not seem very relevant for TW countries, or certainly

²²

V. Norman, "EFTA and the International European Market", Economic Policy, October 1988, pp. 425-26.

difficult to detect there, (c)(2) is the one that may apply to some LDCs.

To conclude, the EC's greater internal integration impinges on its external commitments and obligations both multilaterally - GATT's bound tariffs and Uruguay Round - and bilaterally - Lomé, therefore leaving open the question whether it is 'Fortress Europe', as feared by many inside and outside the EC, that will emerge or instead the officially proclaimed 'Partnership Europe'.

3.1. Macro-economic effects

In theory, the over all impact on third parties of the EC's further integration, not to speak of Europe as a whole, results from the sum of the opposite effects due to trade diversion and trade creation.

Although it is not clear whether, and which one of, the bilateral protection or import guarantees is going to be replaced, at the EC level, by similar - or higher, rather than lower - measures, the elimination of internal barriers is bound to redirect trade away from traditional suppliers and towards EC members, thus transforming some international into internal trade. This substitution is going to affect TW countries' exports of manufactured goods more than that of raw materials.

The impact resulting from the increase in income and, therefore, of the demand for imports that the integration generates is instead going to be felt more on LDCs' traditional exports than on their actual or potential exports of manufactures. Actually, the latter will have to compete with EC sources, made cheaper by the integration process, and with EE's production. The combination of these two effects - noticing that trade diversion is anyway considered to be the strongest of the two - may tend to reinforce the TW's traditional division of labour as the EC's import markets may shrink even for the manufactures of many Asian NICs.

Furthermore, while trade creation is easily associated with the outcome of the increase in the EC's GDP, trade diversion is much more difficult to identify for it results mainly from dynamic effects, economies of scale, reduction of

X-efficiency, etc²³. Even less easily identifiable is the eventual diversion of DFI toward the EC's South and the export redistribution within the TW, namely the substitution of the exports of one LDC for another's.

The increase in the cost of the TW's exports to the EC may result not only from the stronger competition from EC sources as well as from those located in EE - eventually sustained by EC's DFI - that they may have to face, but also from the need to comply with the EC's norms and standards the harmonization of which tends to take place toward the highest level. Information relative to this harmonization is not cheap and it adds up to the cost of TW exports. This is one field where the EC could help by creating an Information Center for the TW.

3.2. TW Trade with EC

EC's trade with the TW amounts to less than 1/3 of extra-EC trade, but this share, notwithstanding the increase in oil prices during the 70s, has kept declining from almost 1/2 at the end of the 50s. The decline affects both EC exports and imports, the latter even more pronouncedly. The distribution of extra-EC imports from most of the TW has evolved as follows:

		1958	1960	1970	1988
		%	%	%	%
from:	ACP	17.2	9.7	8.9	4.5
	Med.	7.1	6.6	9.4	7.8
	Asean	2.9	3.0	1.6	3.1
	OPEC	16.7	14.4	16.3	8.2
	LA	10.3	9.7	7.9	5.9
	Total	47.2	43.4	44.1	29.4

Source: Eurostat, External Trade - Statistical Yearbook 1987, Luxembourg, 1988 and External Trade, Monthly Bulletin, Luxembourg, 5, 1990.

²³ R. Baldwin, "The growth effect of 1992", Economic Policy, 9, October 1989.

In terms of product categories, the distribution of extra-EC imports from most of the TW, in 1988 is presented in the following table:

	ACP	Med.	ASEAN	OPEC	LA	LDCs	EC	EC/LDCs
	Billion ecus						%	
0. Food stuff	5.1	2.6	2.3	1.3	8.3	19.6	31.9	61
1. Beverages and tobacco	0.3	0.1	0.1	0.1	0.3	0.9	2.1	43
2. Raw materials	2.9	1.6	1.6	1.1	4.3	11.5	35.3	33
3,4. Fuels and fats	4.1	10.8	0.6	24.1	2.3	41.9	48.4	87
5. Chemicals	0.5	1.6	0.1	0.7	0.6	3.5	24.8	14
6. Manufactures	2.8	3.9	1.5	1.2	3.8	13.2	58.4	23
7. Machinery and transport equipment	0.8	2.2	3.2	1.4	1.5	9.1	105.2	9
8. Other manufactures	0.5	5.5	2.3	0.4	0.6	9.3	49.7	19
9. Other products	0.4	1.4	0.2	1.3	1.0	4.3	27.9	15
Primary commodities (0,1,2)	8.3	4.3	4.0	2.5	12.9	32.0	69.3	46
Total	17.2	29.6	12.0	31.6	22.8	113.2	383.7	30

Source: Eurostat, External Trade - Statistical Yearbook 1987, Luxembourg, 1988 and External Trade, Monthly Bulletin, Luxembourg, 5, 1989.

In order to assess the eventual effects of Project 92 on TW exports the different types of products must be distinguished:

- (i) primary product exports to the EC will quite certainly increase because of trade creation, which in turn results from volume and price effects. Assuming that the EC's GDP increases by 5%, the size of the simple trade creation effect (simple because no terms of trade effect is compute, although it should be rather small²⁴) with respect to the non-fuel exports of the LDCs recorded in the above table may vary between 1 or 2.6 billion ecus - including

²⁴ According to A. Matthews' calculations ("African Primary Product Exports to the European Community: Prospects Post 1992", unpublished paper presented to the Senior Policy Seminar of the World Bank and HEDCO on Africa and Europe After 1992; Dublin, November 27-30, 1989, p. 5) the terms of trade effect relative to African non-fuel exports could be worth around 1/2 billion ecus.

also a possible loss of more than 1 billion ecu - according to which estimated income elasticity of demand for primary commodity imports is utilized²⁵. Although tropical products - which make up about 16% of EC imports of raw materials from the TW - present

²⁵ Estimated increase in the value of most LDCs' primary commodity exports to an EC's GDP growing by 5%.

	EC's Imports from LDCs Bil.ecu	Income Elasticity Bala-Bond ssa		Billion ecu Bala-Bond ssa	
Food stuff	19.6	0.6	1.20	.59	1.18
Beverages and tobacco	0.9	0.6	0.65	.03	.03
Raw materials	11.5				
agricultural*	6.0	0.3	0.56	.09	.17
mineral*	5.5	0.7	2.16	.19	.59
				-----	-----
				0.90	1.97

* Estimated distribution of these two categories.

B. Balassa, The Adding Up Problem, World Bank Working Paper WPS30, World Bank, Washington, 1988 and M.E. Bond, "An Econometric Study of Primary Commodity Exports from Developing Country Regions of the World", IMF Staff Papers, 34,2, 1987.

If one uses the GATT's estimates of apparent income elasticities (see also in European Economy, 39, March 1989, Table 4, p. 14), the following picture emerges:

	EC's imports from LDCs	Elasticity average		Billion ecu	
		1985-86 (a)	1980-86 (b)	(a)	(b)
Agric. materials and food stuff	26.5	.76	.4	1.01	.53
Minerals and energy products	47.4	.68	-.7	1.61	-1.66
				-----	-----
				2.62	-1.13

The apparently much higher estimates reached by ODI Briefing Paper (November 1989), namely ecu 4.6 billion, is due the inclusion of imports of fuels, which alone amount to another 35 billion ecus, plus textiles and shoes, the impact of Project 1992 on which is estimated at about ecu 850 million and - 260 , respectively. As for oil, given the EC's objective of reducing its imports, extra-EC oil suppliers cannot be expected to gain much from Project 92.

higher income elasticity, and therefore obtain a larger part of the additional agricultural imports generated by the increase in EC's GDP, yet the overall effect of Project 1992 on tropical products will remain modest.

The TW is divided on the liberalization of tropical products for the ACP countries fear that they will then lose their preferential access to the EC, something they could accept only if offered in return improved access for other agricultural or semi-processed and manufactured products, particularly tobacco, fishery products, oils and oilseeds, processed and unprocessed fruits and vegetables, including soya and olive oils²⁶.

Among the tropical products - about 10% of LDCs' exports, but more than 20% of those from the least developed countries - an interesting case is that of bananas, the future of which is closely linked to the elimination of article 115²⁷ imposed by the completion of the single market. Presently 1/2 of EC imports of bananas come from ACP countries, protected by a 20% ACP tariff preference, and the other 1/2 from more competitive producers from Central and South America - the so-called 'dollar bananas'. Although this preferential margin is already inadequate to protect ACP bananas, the eventual elimination of art. 115, by allowing the cheaper and higher-quality 'dollar bananas' to circulate all over the EC, will even more seriously threaten the former. Liberalization then fosters the exports of 'dollar bananas' to the detriment of other less competitive producers toward which the EC has legally binding obligations resulting from the Lomé Convention.

The completion of the internal market might also improve the prospects for the import of rum from the ACP countries for the

²⁶ M. Davenport and C. Stevens, "The Outlook for Tropical Products", in C. Stevens and D.C. Faber (eds), The Uruguay Round and Europe 1992: Implications for future ACP/EC cooperation, ECDPM Occasional Paper, Maastricht, 1990, p. 65.

²⁷ To avoid trade deflection more protectionist member countries can extend these measures to imports from more liberal member countries.

national shares of the tariff quota is, according to the Lomé IV Convention, to be phased out, while the new rum protocol provides for a rapid increase in the quota from 1993 and its abolition after 1995. Yet, the exports of other producers in the TW may be negatively affected²⁸.

The attempt to harmonize national rates relative to VAT and excise taxes also has an impact on commodity trade. The elimination of the excise tax on coffee could increase the EC's imports by 3%, world prices by 5% and LDCs' exports to the EC by about ecu 650 million, while the imports of cocoa could increase by about 50 million ecus as result of the elimination of the excise tax and the harmonization of VAT on this product. The rate of the excise taxes on tobacco will instead most probably increase, with the consequent reduction of EC's imports of between 10 and 15% and a loss of 50-80 million ecus. To compensate LDC producers, the liberalization of the EC tobacco regime could bring to an end EC dumping of low-quality tobaccos on the world market. Finally the new standards implemented by the EC will affect mostly the import of meat - beef and veal - products from African countries, while those on fish may concern Asian exports of shellfish. Meat's import elasticity is not too small, but as meat exports of some ACP countries result mainly from EC preferential quotas (which represent about two days of European consumption²⁹), the removal of the latter while increasing international beef prices, will also reduce the domestic prices in these privileged countries, thus lowering their production and, likely, also their exports. Yet, liberalization may increase "the EC's import needs for

²⁸ ODI, Briefing Paper, November 1989, from which estimates of the impact of Project 1992 on various products are utilized in the next two paragraphs.

²⁹ With Lomé IV protocol on meat the overall annual quantity of this product's imports covered by a preferential treatment has been raised from 30 to 39.1 thousand tons and ACP exporters are no longer required to levy an export tax in exchange for the 90% reduction in levies accorded by the Community.

beef... somewhat more than estimated by several studies"³⁰.

In general, and not only for bananas, the positive effects resulting from the elimination of art. 115 could be reduced or fully erased by a more frequent use of anti-dumping tariffs, already imposed on steel imported from Brazil and from Mexico, on South Korean video cassettes and on some Chinese minor trinkets. Of the anti-dumping actions initiated by the EC during the period 1980-88, 21% concerned LDCs - plus 7% only Yugoslavia - covering an annual average volume of exports equal to 133 billion ecus and 'causing' to them, on average, an annual reduction of 11%³¹. Furthermore, it has been demonstrated that given anti-dumping effectiveness in protecting import-competing industries, EC countries, as well as other DCs, may prefer the latter over the voluntary exports restrictions (VER), "despite the 'procartel' bias of anti-dumping procedures and the corresponding cost for the country imposing" them³². Although recently "the demand for protectionism has increased both in the European Community and in the United States,...for European firms, the Community market remains more protected than major export markets, even in sectors

³⁰ S. van Berkum and H. Rutten, "Liberalisation of Temperate Agriculture", in Stevens and Faber, op. cit., pp. 23 and 42.

³¹ R. Weidman, "The Anti-Dumping Policy of the European Communities" Intereconomics, 25, January-February 1990, Table 1, p. 33.

³² P.A. Messerlin, "The EC Antidumping Regulations: A First Economic Appraisal, 1980-85", Weltwirtschaftliches Archiv, 125, 3, 1989, p. 264.

where demand is strong"³³. The problem, therefore, is whether anti-dumping actions will increase after 1992 and whether the closer ties that the EC may establish with EE - presently the area most hit by these actions - will make the TW the main target of any anti-dumping tariffs.

Mutual recognition may not apply to many LDCs and the certification of tests and other requirements constitute not only extra costs but also an instrument that a determined bureaucracy can easily transform into protectionist measures.

At any rate commodity prices, in general, should remain unstable, with a possible downward trend in real terms.

- (ii) Lowering the level of EC's protection of temperate products - such as grains, meat and dairy products - whether as result of GATT multilateral trade negotiations or of EC unilateral action, will certainly affect the interests of the TW as the likely increase in world market prices of temperate products³⁴ which it is widely expected to cause, should also³⁵

³³ Directorate-General for External Relations and Directorate-General for Economic and Financial Affairs, "International Trade of the European Community", European Economy, 39, March 1989, pp. 32 and 46. According to G. Koopman and H. Eckart Scharrer, "about one-quarter of all export restraint arrangements registered by the GATT secretariat, ranging from voluntary self-restraints via orderly marketing arrangements to market-sharing accords between industry associations, involve EC members as the importing countries seeking protection" ("EC Trade Policy Beyond 1992", Intereconomics, 24, 5, September-October 1989, p. 208). The same authors report that during the period 1978-87, the Community has resorted to the GATT safeguard clause 12 times; M. Kelly et al., Issues and Developments in International Trade Policy, IMF Occasional Paper no. 63, Washington, December 1988, p. 137.

³⁴ See, for instance, the 1984 EC decision to curtail the production of dairy products, as result of which the international price of cheese and skimmed milk has already almost doubled while other dairy products have also shown steady price increases; S. van Berkum and H. Rutten, "Liberalisation of Temperate Agriculture", in Stevens and Faber, op. cit., p. 39.

³⁵ Other important effects, less relevant in this context, attributed to the liberalization of agriculture are the decrease of its production in countries where this sector is highly protected; the increase in the volume of agricultural products internationally traded; and the lowering of its price fluctuations.

- (a) improve welfare of LDCs' exporters, while lowering that of LDCs' importers as terms of trade will move in favour of the first and against the latter;
- (b) affect other markets like those of tropical products and so benefit LDCs' exporters of such products;
- (c) divert resources to agriculture with resulting increased efficiency of this sector to the possible detriment of other sectors;
- (d) stimulate agricultural production in many LDCs, particularly that of grains, like wheat, rice, and maize. Whether or not these LDCs can expand their exports by moving into the processing of products such as citrus fruits and horticultural crops will depend on the tariffs and non-tariff barriers (NTB) applied by DCs and therefore by the outcome of the Uruguay Round and the terms of Lomé IV³⁶.

The net effect will then vary for each and every LDC and its assessment becomes even more difficult when one tries to take into account the impact of price changes on income and its distribution. Furthermore, it seems unlikely that LDCs will be able to take advantage of higher world market prices and increase their supply without "additional supportive measures in different economic fields", such as cushioning their own consumers from the price shock and the provision of the necessary financial instruments to increase output³⁷. So, while liberalisation's benefits

³⁶ D.C. Faber, C. Stevens and T.M. van Vijfeijken, "Introduction", in Stevens and Faber, op. cit., p. 4.

³⁷ For a calculation of the welfare gains and losses of EC liberalization to several groups of LDCs, see A. Matthews, The Common Agricultural Policy and the Less Developed Countries, MacMillan, Dublin, 1985, pp. 142 and 145, and also van Berkum and Rutten, op. cit., pp. 24-33, plus p. 36. The latter also rightly quote Matthews' assertion that "it is not axiomatic that a country which is a net exporter after the world price increase must be a net gainer" (Matthews, op. cit., Appendix, p. 251).

do not easily materialise, there are its higher import costs plus the income losses arising from the dismantling of preferences; thus the net effect of EC's agricultural liberalisation on the TW, particularly on the ACP countries, is not necessarily positive without the concrete support of the Community.

- (iii) Manufactured exports from LDCs are relatively small and it is not likely that their trade creation effects be much larger than those from trade diversion. Assuming, as in the Cecchini Report³⁸, that the reduction in the imports of manufacture is no less than 10% and the import elasticity 3%, then the income increase must be higher than 3% for trade creation to surpass trade diversion.

One of the most important manufactures exported by the TW concerns textiles and clothing, which alone represent about 10% of TW's exports or about \$ 177 billion in 1988, half of which is strictly regulated by the Multifibre Agreement³⁹. The EC MFA is particularly complex with its 368 quotas, covering 17 LDCs and five 'socialist' economies, each subdivided into member quotas. The abolition of the latter as result of Project 92 implementation would contribute some liberalization, but aside the fact that no final decision has been yet reached, the retention of EC quotas may extend them to exporting countries not yet covered by them. As for the ACP, being their clothing exports concentrated on a small number of EC countries and the most protected ones, they "will have to increase their marketing activities in order to preserve their existing market share in the EC"⁴⁰.

³⁸ P. Cecchini, The European Challenge: 1992, Gower, Aldershot, 1988 or "The Economics of 1992", European Economy, 35, March 1988.

³⁹ This is a 51 -nation accord which since 1974 (it has been extended already three times) allows DCs to protect their textile industry from cheaper imports through individual pacts - VERs - limiting foreign deliveries. The VERs identified by GATT as active in the period 86-87 are 137, 68 of which protect the EC market. Three quarters of the 137 VERs deal with six products, in the following order: steel, agricultural products, autos and transport equipment, textiles (not yet included in the MFA), electronic products and shoes.

⁴⁰ Faber, Stevens and van Vijfeijken, op. cit., p. 6.

EC quotas may also replace national bilateral quotas (sometimes established at the industry-to-industry level without government involvement) on footwear and electronics extending the protection of these products.

Furthermore, in most manufacturing sectors the effect of EE's competition may be quite strong. The access to the EC market that the countries of EE demand - and that EC cannot easily deny if it is seriously interested to the economic restructuring and their political stability - should worsen the balance of payments of the TW and, therefore, make more difficult its industrialization. Yet, many countries of the TW need even more than before to diversify away from dependence on commodities. A recent UNCTAD study shows that for the period 1967-86 of 86 LDCs examined, only 1/3 achieved a significant decrease in this dependence on commodities for export-earnings, while 1/2 of the remaining 2/3 saw such a dependence increase.

The new tighter standards being agreed will certainly have an impact on manufactures imported by the EC. One of their effects is to penalize old producers and favour new ones which found less costly to comply with them. The redistribution of production that is so promoted could be used to establish invidious distinctions between LDCs, and also to obtain better conditions for the eventual DFI that the new producers might need. Furthermore, the harmonization of standards might also give an advantage to the countries of EE, whose systems and methods of production lack the necessary flexibility to generate many goods and satisfy differentiated demands, while they are better off in the large scale production of few products.

The completion of the single market, together with the standardization of EC technical measures, should, however, stimulate ACP countries to diversify their pattern of trade, still too heavily concentrated on the their respective former colonial powers, a fact that underlines, if needed, the colonial roots of that

'Eurafrica' concept on which largely has rested any justification of the Lomé Conventions⁴¹.

The combination of a trade diversion larger than the trade creation and EE's access to the EC market both seem

- (a) to subtract a large share of the EC market to the manufactures of many LDCs, inclusive even those from the Asian NICs, and consequently
- (b) to reinforce the TW's traditional division of labour.

This conclusion is underlined by the eventual diversion of DFI, European and otherwise, towards the South of the EC and towards EE.

- (iv) TW's trade in services is limited and LDCs, as a whole, show deficits in this trade⁴². Whereas DCs remain highly competitive also in the world market of non-factor services, the LDCs' service sectors - which contribute about 20% of their external transactions - are concentrated mainly on tourism, construction, shipping, data processing and computer software, and off-shore finance, sectors which cannot escape but to be affected by the completion of the single market.

The EC relationship with its trading partners, including the TW, will be shaped by how the reciprocity vs national treatment issue will be dealt with and the kind of standards that will be adopted.

⁴¹ A. Hewitt, "ACP and the developing world", in Lodge, op. cit., pp. 285-7.

⁴² World trade in 'invisibles', one-half of which is constituted by commercial services and the other half mainly by investment income and then unrequited transfers, represent roughly one-third of that in merchandise and it is growing very fast, namely at an annual average of 13% for the period 1970-87; GATT, International Trade 88-89, GATT, Geneva, 1989, Vol. I, Table 20 and 21, p. 30. Difficult to establish TW share in this trade, estimated at less than one-fourth of the total; UNCTAD, Trade and Development Report, 1988, UN, New York, 1988, pp.150-51. See also C. Secchi, L'Italia e il commercio internazionale di servizi, Franco Angeli, Milano, 1988, pkg. 150.

The first issue refers to the EC demand that to share in the benefits of the single market the other countries must either reciprocate by carrying on an equivalent liberalization of this sector, or simply extend to EC interests abroad the same treatment reserved to the domestic ones. Even more potentially restrictive of trade is the setting and harmoni of technical standards. The utilization by the LDCs, particularly by ACP countries, of their competitive advantage in some labour intensive services - such as construction, shipping, some types of air transportation and some professional services - will depend largely on the extent that labour movements across frontiers will be allowed and on the concessions that EC will be willing to make in areas left unregulated by GATT.

The liberalisation of services which may emerge from the Uruguay Round and the increased competition in service markets resulting from the implementation of Project 1992, both much feared by the more advanced LDCs, would certainly benefit the less developed ones, including the ACP countries, which, being net importers, could then enjoy lower prices. Yet, the fear comes from the realization that the long-term effects of such a liberalisation as well as of Project 1992 cannot fail to negatively influence the establishment of the service industry in the TW, while also reducing "substantially the effectiveness of any possible preferential treatment that ACP countries could receive from the EC".

As for manufacturing, the technical and social standards being elaborated by the EC, particularly if a social clause is introduced into preferential trade agreements, will not prompt the emergence of competitive service sectors in many countries of the TW⁴³.

⁴³ P. Nicolaides, "Trade Policies for Services: Options for the ACP Countries", in Stevens and Faber, op. cit., pp. 130-31.

3.3. Trade policy

3.3.0. Introduction

Although "the Community repeatedly claims to adhere 'scrupulously' to GATT rules...its commercial policy measures have a complex preferential (i.e. discriminatory) bias", for the EC has a tradition of discrimination, itself still being essentially a preferential trading arrangement⁴⁴. The most cumbersome system of discrimination is the one built by the EC with respect to the TW⁴⁵ the so-called 'pyramid of privileges' which distinguishes, in order of privileges offered, Mediterranean, ACP, GSP, ASEAN, Andean Pact, some Latin American countries, and some other LDCs.

The EC differentiates between LDCs in many ways, the main instruments utilized being:

- (i) tariffs: the average common customs tariff being low and if it is almost trivially so for LDCs, there are exceptions. Then there is the common agricultural policy (CAP) by which rates can jump easily to 200 and 300%. Furthermore EC actual tariff rates applying to LDC exports may be higher than those applied to developed countries' (DC) exports, since there still is in the EC tariff schedule an important escalation from primary products to intermediate goods; and
- (ii) a series of non-tariff instruments, some utilized at both the national

⁴⁴ J. Pelkmans, "The European Community's Trade Policy Towards Developing countries", in C. Stevens and J. Verloren van Themaat (eds), Europe and the International Division of Labour. Survey 6, Hodder and Stoughton, London, 1987, p. 15.

⁴⁵ According to F.D. Weiss ("A Political Economy of European Community Trade Policy Against the Less Developed Countries?", European Economic Review, 31, 1987, p. 464) "European trade policy... discriminate[s]... also against the less developed countries". Not only the tariff structures of DCs tend to discriminate against LDCs, but the EC's presents a relevant tariff escalation from primary products to intermediate goods; R. Siebeke, "Is the GSP Antiquated?", Intereconomics, 24, 6, 1989, p. 300, who quotes some German studies plus, naturally, A. Cairncross et al., Protectionism. The Impact on Developing Countries, Report by a group of experts to the Commonwealth Secretariat, London, 1982, paragraphs 3.51 and 3.52.

and the Community level⁴⁶.

EC trade policy includes also rules of origin and product coverage, particularly for its GSP, and it cannot be properly assessed without considering its close links with the Community's industrial policy.

Four of the above listed instrument are particularly relevant for the TW: VERs, among which the best example is MFA; quotas; surveillance; and dumping. How Project 92 is going to affect the utilization of these measures is still unclear. The implementation, within the GSP, of graduating the most successful competitors, the increasing discrimination against NICs of recent years and Lomé IV - see later 3.3.2 - are not very encouraging. From the point of view of LDCs "serious criticism can be levelled at the discrepancy between lofty objectives and numerous impediments to free trade and security of access to the Community's market"⁴⁷.

The reasons for continuing with protectionism and discrimination are:

- (i) the burden of internal restructuring and adjustment;
- (ii) the increasing importance of Eastern Europe;
- (iii) the growing environmental preoccupations; and
- (iv) the reciprocity issue.

⁴⁶ An incomplete list of NTBs includes the following measures: safeguards (art. 19 GATT); VERs, namely formal or informal bilateral agreements; counter-measures under the New Trade Policy Instrument (NTPI) for dealing with "unlawful trading practices", namely suspension or cancellation of concessions agreed during trade policy negotiations, increase in existing tariff rates, introduction of quantitative restrictions; anti-dumping, which can also be imposed on products assembled within the Community if imports of these products are already subject to such an anti-dumping tariff and the proportion of parts supplied by the country concerned is at least 60% of the total component value; countervailing duties; technical regulations and certification; public procurement; EC surveillance, i.e. accelerated processing of statistical information on selected products so as to establish the basis for eventual action to limit their importation; minimum prices; quotas.

⁴⁷ Pelkmans, op.cit., p. 38.

Considering its preferential agreements with EFTA, ACP and Mediterranean countries, including the VERs applied to them, only 25% of the EC's total trade is conducted on a most-favored-nation basis, against almost 90% of the USA's.

Very rough guesstimate indicate that Project 92 will certainly affect negatively the Mediterranean - particularly as result of DFI diversion - and the ACP countries, while it may benefit the Asian NICs.

3.3.1. Uruguay Round

The most debated issue in this Round of multilateral negotiations is the high and costly protection that the major DCs offer their agriculture. The more fiercely fought against being the EC's CAP, the effect of which is particularly important given the dominance of agriculture in many LDCs⁴⁸. The main effects on LDCs are:

- (i) increased world supply, and hence reduced prices, of some temperate commodities, mainly cereals, imported by many LDCs. The importers' gains have been paid by the profound crisis, most evident in Africa, affecting their agriculture, a crisis which has further eroded their food self-reliance while the widened productivity gap with DCs, by now has become insurmountable for many of them;
- (ii) increased instability of world prices;
- (iii) negative effect of low agricultural prices on LDCs' exports of tropical agricultural products and on their imports of manufactures;
- (iv) distorted EC investment as a result of which non-agricultural output has grown less than otherwise and food importing LDCs have lost on non-agricultural imports what they gained on agricultural imports. The EC has made it clear that is not going to accept the dismantling of its CAP, although it has already frozen the supported prices of many

⁴⁸ A.F. Cooper, "Exporters versus Importers: LDCs, Agricultural Trade, and the Uruguay Round", Intereconomics, 25, January-February 1990.

agricultural products.

The Community's proposals to the mid-term review of the Uruguay Round in December 1988 fell short of TW expectations for what concerns tropical products because of its limited coverage which excludes all products regulated by CAP - namely, oilseeds and vegetable oils, tobacco, rice and cassava, while ACP sugar and bananas receive special treatment under the Lomé Convention - which, according to the EC, should instead be included in the global agricultural negotiations. The EC proposes to reduce or eliminate tariffs on some 140 products, in terms of 8 digit Combined Nomenclature, to reduce GSP rates of 2, and to eliminate quotas on 21. Although ACP countries have complained that the proposal - which in any case improves their access to non-EC countries - threatens to reduce the value of their trade preferences, its "potential direct impact appears to be modest", for "even a much more thorough-going liberalisation in certain important commodities, including coffee and cocoa, would have relatively modest implications for the ACP market". Even worse is that the ACP countries "are the only group of developing countries unlikely to benefit" from such a liberalization⁴⁹.

Under discussion is still the future of the MFA with the eventual reestablishment of GATT rules on this type of international trade. Last February the US proposed a 10-year phase out, restructuring DCs' textiles and clothing industry, starting at the beginning of 1992. Japan has instead proposed that the present MFA-4 be ended in 1991 and that, therefore, all restrictions based on it be eliminated. If needed, the Japanese proposal envisages a transition period which could run until the end of 1999. The EC seems however to insist that any weakening of the MFA must be reciprocated by LDCs' own liberalization. In any case the elimination of individual country quotas and of art. 115 that must accompany the completion of the internal market, cannot fail to seriously affect the MFA which may follow the present agreement after 1991. In addition to the risk of reducing EC quotas to the level of the most protectionist members, the setting of quotas at EC level by the Commission "may mean a considerable reallocation of trade to the [member] countries that are at present most restrictive". This removal of national quotas should also affect intra-EC trade, as result of the freeing of supplies, which, given the

⁴⁹ M. Davenport and C. Stevens, "The Outlook for Tropical Products", in Stevens and Faber, op. cit., pp. 62, 64 and 77.

elasticity of substitution and the elasticities of demand, will displace some in favour of others. The implementation of Project 1992 should further contribute to the lowering of production and distribution costs within the EC, thus fostering EC competitiveness vis a'vis foreign producers. In any case "anti-dumping might become the substitute instrument if MFA liberalisation went 'too far' for the EC"⁵⁰.

Another heated discussion concerns the problem of services, for the first time on the agenda of such a multilateral trade negotiation, due to the strong opposition of some of the larger and more advanced LDCs. Their objection derived primarily

- (i) from the DCs' resistance until now to liberalize even sectors such as textiles and steel, in which the LDCs have a comparative advantage; and
- (ii) from the LDCs' desire to retain the option to develop their own non-traditional service sector.

The increasing share of this sector to about 1/3 of TW's total production, also underlines its importance for many LDCs⁵¹. Furthermore, it is recognized that services provide an increasingly essential input to many other production activities, thus the importance firstly of their availability and secondly of their procurement at the lowest possible prices so as to reduce the cost of production of the final goods produced with their help. To assure this availability may justify the national production of services, to improve the competitiveness of final goods in international markets. Otherwise it demands their importation whenever they are cheaper than the domestically produced. Given these considerations, liberalization⁵² should be acceptable, especially if, at the same time, plans are made in order to apply to the service sector an import substitution strategy in the not too far future.

⁵⁰ Page, op. cit., pp. 99 and 105.

⁵¹ UNCTAD, Services and the development process, TD/B/1008, rev. 1, Geneva 1985, and TD/B/1100, 1986.

⁵² While the EC's emphasis is on individual liberalisation measures, the US' on the right of establishment and on the national treatment.

The need to protect intellectual property rights must be balanced by LDCs' public interest, development and technological objectives. Clearly these objective are not easily reconcilable. Given the relatively modest or incipient stage services are in many LDCs, they can hardly liberalize and even less offer reciprocity. The EC's insistence on this, therefore, should not include LDCs, or at least not all of them.

Lately the US and the EC have expressed their willingness to grant concessions on their merchandise imports in exchange for more liberal conditions for their exports of services to LDCs, i.e. to link concessions on merchandise trade to those on services. LDCs oppose such a link and insist that DCs should resolve the problems of merchandise trade by means of standstill and rollback arrangements under existing GATT obligations, which they have not wholly fulfilled yet.

Following US success with bilateral negotiations in order to obtain protection for its for industrial and intellectual property rights (patents, trade marks, copyrights, all made even more relevant by the information technology revolution and the biorevolution), the EC has begun to demand equivalent treatment, threatening to remove preferential market-access as an 'inducement' to cooperation, the first example of such an action being the withdrawal of the GSP access to South Korean exports.

3.3.2. Lomé Convention

Although considered the linchpin of the EC's 'pyramid of privileges', twenty-five years of preferential treatment for the ACP countries have not enabled a single one of them to climb into the league of the NICs. Furthermore, not only has the ACP share of EC imports not increased since the first Convention, but it has actually declined from 7.3% in 1975 to 4.5% in 1988, as has decreased the ACP's share of EC imports from TW countries, namely from 21% to 16%, during the same period⁵³. Even in relation to primary commodities, which constitute more than 4/5 of ACP exports to the EC, the ACP countries in the 1980s "have performed relatively less well compared to other developing countries", most notably in the products where they have a margin of tariff

⁵³ Elaborated from Eurostat, External Trade - Statistical Yearbook 1987, op. cit., and External Trade Monthly Statistics, 5, 1989, op. cit..

preference over the latter⁵⁴.

Although Lomé preferences do not seem to have a distinctively positive effect on ACP countries, they fear that the Uruguay Round negotiations and the coming review of the EC's GSP in 1991 might further erode even that margin of preference that they still have. These fears are compounded by the possible impact that both the completion of the single market and, more recently, the EE's economic restructuring may have on them.

The 4th Lomé Convention signed on 15 December 1989 - effective by 1st February 1990 and now grouping 69 countries from Africa, the Caribbean and the Pacific areas - does not bode well in terms of EC future interest in the TW.

Of the ACP's demands the only ones accepted by the EC are:

- (i) extension of the time coverage of the Convention from 5 to 10 years - contributing to more stable co-operation;
- (ii) admission of three new states - Haiti, the Dominican Republic and Namibia;
- (iii) discontinuation of mandatory reimbursement of Stabex transfers;
- (iv) addition of gold and uranium to the Sysmin list;
- (v) some small improvement to trade provisions, such as allowing requests for a derogation from the rules of origin and thus reducing to 45% the threshold for minimum local value-added.

By insisting that an ACP product undergoes a minimum - 40-50% - amount of transformation, to avoid trade deflection, EC regulations actually constitute

⁵⁴ M. McQueen and G. Yannopoulos, "ACP Trade: An Urgent Need for an Imaginative and Generous response by the EC", Lomé Briefing, 11, October 1989. However, Davenport and Stevens (op. cit., pp. 60-61) hold the view that for tropical products "as a group there has been little difference between the average rate of growth of Community imports from the third world and that from the ACP states", even though the growth of the latter "has been considerably in excess" of the former exactly "where ACP preference margins are substantial" as for coffee, tobacco and palm oil.

a serious obstacle to the exports of manufactures by the APC countries. The criteria specified by the rules present also the following problems, the solutions of which cannot be expected from the few derogations allowed⁵⁵:

- (i) the exclusion of 'simple assembly' penalizes small, less developed economies. Yet, EC 'screwdriver' plants can be established there since EC inputs are considered as ACP originating products (cumulation principle);
- (ii) the setting of a maximum outside content for manufactured ACP goods at 40-50% of the price of the finished product when it leaves the factory. Coping with such a rule enables ACP products to benefit from total free access, further defined by a complex set of regulations, but it requires an integrated industrial structure that few ACP countries may have already developed;
- (iii) for textile and clothing, to require that the starting material should be yarn forces ACP to develop a substantial transformation well beyond that required to avoid trade deflection;
- (iv) for fishery products to qualify they should have been caught in vessels at least 50% ACP or EC owned, with further restrictions applying to the nationality of the captain and the crew, when clearly ACP countries rarely own deep sea fishing fleets. The fisheries agreements - i.e. the instruments by which EC fleets gain licensed access to ACP waters in return for financial compensation as well as concessions covering employment and training of ACP nationals, transfer of technology, research, on-board observers and use of by-catches - "have not been particularly successful beyond satisfying the strictly commercial needs of the ship owners", for ACP signatories do not have the means to control the correct execution of these agreements⁵⁶.

⁵⁵ McQueen and Yannopoulos, op. cit. and also M. McQueen and C. Stevens, "Trade Preferences and Lomé' IV: Non-traditional ACP Exports to the EC", Development Policy Review, 7, 3, 1989, pp. 253-5.

⁵⁶ International Collective in Support for Fishworkers, Lomé Briefing, 8, April 1989.

The ACP countries' bargaining position was not strengthened by their difficulty in finding a united stance which in turn contributed to their not obtaining the New Convention they wanted and hence forced them to accept even a much smaller volume of financial aid that they had proposed, namely from 15.5 billion ecus for five years to 12 billion: the 7th European Development Fund allocates 10.8 billion ecus for programmable and non programmable aid (including 825 million ecus for risk capital) and the European Investment Bank 1.2 billion ecus for loans, on the whole this amounts to merely 4.4 ecus per capita annually. A small 6% decline of the ACP exports to the EC (for the period 1986-88 they have averaged 17.8 million ecus, against 23.8 for 1981-85) can more than wipe out one year's aid provided by Lomé III, namely 958 million ecus. Considering then the rate of inflation, the growth of their population and the accession of the new three countries, this amount is really not larger than the 8.5 billion ecus provided by the previous Convention.

Officially presented as Lomé IV most important innovation is "the new system of support for economic rationalization (structural adjustment) policies"⁵⁷. The system consists in the allocation of ecu 1.15 million, to which a limited part of the resources of each country indicative programme can be added, for assisting ACP countries undergoing structural adjustment programmes, i.e. mainly balance of payments support or more simply paying out money for imports or technical assistance. This allows the EC to keep increasing its control over the allocation of resources, a control already introduced by the 'policy dialogues'. Meanwhile, by further strengthening the coordination of its aid with that of the World Bank and the IMF, the Community implicitly accepts their criteria for the allocation of resources, including conditionality, by EC viewed as a "necessary extension of dialogue to the macro-policy level". Yet, by institutionalizing the practice of using Lomé credits no longer for development alone, but also to support adjustment policies, the new system seriously risks that "development is sacrificed to financial discipline", an outcome "unacceptable" even to former Commissioner Pisani, responsible for the introduction of the 'policy dialogues'⁵⁸. Aside from directly absorbing more Lomé aid, the balance of payments support provided by the structural adjust-

⁵⁷ See M. Marin's, vice-president of the Commission and Commissioner for Development and Fishery, "Lomé' IV - the scope of a new Convention", The Courier, 120, March-April 1990, p. 13.

⁵⁸ E. Pisani, "Warning", Lomé Briefing, 2, September 1988.

ment programmes, particularly those influenced by the Bretton Woods institutions with their emphasis on the demand for the reduction or elimination of tariff protection, may indirectly contribute to scare away DFI from, thus further reducing the availability of resources for the longer term development priorities of the ACP countries⁵⁹.

The access to the EC market of agricultural products, restricted by the CAP, has been improved by Lomé IV by a modest increase in the quantities eligible and a slight reduction in levies or customs duties for the few products already receiving preferential treatment and for some more 40 products, such as sorghum, millet, yams, rice, molasses, strawberries, tomatoes, citrus fruit, the imports of which are mostly still restricted both in terms of marketing timetables and quantities benefiting from preferential access⁶⁰.

Bananas and rum have already been mentioned. As for the latter Lomé IV protocol increases the quantities which may be imported free of customs duties and plans for the abolition of this tariff quota in 1995. As for sugar, while the impact of the subsidisation of the sugar sector in the ACP countries "on the sugar exports of the member states is substantial, thus helping to contain the economic risk to which the sugar producing sector is subject.. it does not foster development...nor is employed to adjust to the keener competition on the world market" and the admission of the Dominican Republic and Haiti may even worsen the situation of the ACP countries⁶¹. At the same time, CAP liberalisation would necessary reduce EC's sugar price and, hence, ACP's.

The implementation of EC food strategy in Africa does not easily square with the price depressing effects of the CAP's cereals dumping, a fact that underlines "the interaction of the CAP with precisely those domestic policies identified as obstacles to the recovery of smallholder production" in Africa,

⁵⁹ Page, op. cit., p. 109.

⁶⁰ See also M. Vander Stichele, "The Lost Spirit of Lomé", Lomé Briefing, 14, January-February 1990.

⁶¹ T. Kock, "The Sugar Protocol: an Appraisal", Intereconomics, 24, 6, November-December 1989.

as well as in other parts of the TW⁶². Given DCs' high and growing productivity, re-launching African agriculture cannot be conceived without a certain amount of protection for this sector, and not without some regional harmoni. Necessary for taking into account the complementary nature of this sector and its transformation, the regional approach in production is made difficult by the country-by-country approach of the structural adjustment programmes. Moreover, being oriented mainly to the international market, structural adjustment programmes cannot foster the creation of regional markets for indigenous agricultural products⁶³.

While Stabex 'transfers' will no longer be repaid, the EC's control over the use of the money has noticeably increased and newly processed products will not be covered by the stabilization scheme.

Also little progress has been made on the easing of the fruit and vegetable regime, while the proposal by the ACP countries to help them to support the efforts to alleviate the considerable supply side problems they face, by means of a programme for processing, marketing, distributing and transporting of their export commodities (PMDT), has not found the necessary financial backing.

In addition, new measure on promotion, protection, financing and support for foreign and local investment are unlikely to effectively reverse capital outflow and disinvestment which, in turn, will affect the possibility of ACP countries to reduce their overwhelming dependence on unprocessed primary commodities, dependence often resulting from the interacting of CAP and Lomé measures. A clear example is the high prices of Lomé's Sugar Protocol which have certainly contributed to preventing the allocation of production factors to more efficient sectors of the ACP economies. Furthermore, as little effort has been made to utilize the extra resources so obtained even for restructuring their sugar sectors, the ACP countries have remained almost exclusively exporters of raw sugar⁶⁴.

⁶² K. Watkins, "Towards a Coherent Agricultural Policy for the ACP and the EC?", Lomé Briefing, 5-6, January-February 1989.

⁶³ L. Tubiana, "The GATT Negotiations: Danger for ACP Countries", Ibidem.

⁶⁴ Koch, op. cit., p. 296.

In any case, as recently as 1987 the 'new' products, i.e. non traditional ones, exported by ACP countries to EC had only reached 800 million ecus, therefore representing less than 7% of these countries' total non-fuel exports. Although they may no longer be considered insignificant⁶⁵, raw material processing clearly has not advanced sufficiently in many ACP countries.

The sector of services has remained a rather neglected topic in the Lomé Conventions. For the ACP countries, unable to export much and, therefore, largely net importers in this sector, the problem is not much one of trading arrangements, but it concerns the development of their domestic and regional capacity for producing services, particularly in the traditional non-factor, labour intensive sectors such as tourism or travel, other transportation and shipping⁶⁶. Such a development cannot be achieved by an indiscriminate liberalization of trade in services as between DCs and without substantial financial and technical assistance from the EC, the latter clearly not yet available. Instead, the completion of the single market, while enabling ACP countries to obtain cheaper services from the EC, is also likely to contribute to the worsening of their comparative disadvantage in services, "since their productive system does not yet appear flexible enough to benefit from the forthcoming opportunities"⁶⁷.

Finally, there is the disappointing level of implementation and the poor results of the previous Conventions, as also indicated by the fact that at the end of 1988, only 10% of the funds of Lomé III had been disbursed.

3.3.3. General System of Preferences

The EC has been the first to implement in 1971 a GSP, i.e. a scheme of sub-most favoured nation (MFN) preferential tariffs on industrial imports from LDCs, covering \$ 9.3 billion in 1980 trade, almost twice as much as that

⁶⁵ McQueen and Stevens, op. cit.

⁶⁶ P. Thiais, "Trade in Services: the position of the ACP States", in Stevens and Faber, op. cit., pp. 138-142.

⁶⁷ Ibidem, p. 143.

covered by the USA's. Yet, after more than a decade in operation, there is not much evidence of the overall scheme, the EC's nor the GSP of most other DCs⁶⁸.

Duty reduction or suspension concern primarily industrial products, the preferential treatment of agricultural products being limited to small tariff reductions on selected products, a measure made necessary for preserving preferences granted to Mediterranean and ACP countries. Eligibility is limited by quotas so that MFN tariff rates are applied to the imports exceeding these quotas. The countries admitted to the GSP must also make sure that they respect the 'individual country amounts', established to limit preferential imports from particular LDCs, and the rules of origin. No wonder then that a large volume of trade between the eligible countries does not actually receive preferential treatment. Therefore, if one adds to the products forthrightly excluded - such as agricultural and metal products, iron and steel - and the special protection accorded to others like textiles and clothing, it becomes apparent that "the products of greatest immediate interest to the less developed countries have not been the object of significant reductions in tariffs and NTBs"⁶⁹. Meanwhile the uncertainties surrounding the GSP treatment are difficult to take into account in pricing decisions by exporters and importers, as well as in investment decisions related to the products that are GSP-eligible.

The most recent estimate of the impact of the EC's and EFTA's GSPs together show a trade creating effect of \$ 130 million based on 1976 trade, inclusive the improvement of the beneficiaries' terms of trade. The trade diversion effect, \$ 57 million, concerns mainly the imports from the USA and Japan, not a very large cost for these two countries. The GSP also caused a decline in the EC countries' welfare, most notably for the FRG - \$ 45 million - and a reduction of their employment, albeit modest, compensated by production and

⁶⁸ D.K. Brown, "Trade and Welfare Effects of the European Schemes of Generalized System of Preferences", Economic Development and Cultural Change, 37, 4, July 1989, p. 759 and R.J. Longhammer and A. Sapir, Economic Impact of Generalized Tariff Preferences, Gower, Aldershot, 1987, p. 69.

⁶⁹ Brown, op. cit., p. 756.

employment increases in their major export sectors⁷⁰.

Given "the overall tendency in international trade policy to discriminate against successful individual suppliers", the actual EC' GSP, like that of the US', aims "at controlling the amount and allocation of benefits among the beneficiaries", well reflecting "a 'rationale protectionist's view of preference". Its reform should therefore aim not so much at providing larger preference margins, but "more transparency, a longer time horizon and the removal of limitations which cause uncertainty and reluctance to invest". However, the future evolution of the GSP might depend even more on the implementation of all trade liberalizing measures already agreed by the DCs⁷¹, an eventuality which appears politically not very feasible.

Thus, the GSP has remained a relatively minor issue in the North-South trade policy discussions and it is even arguable that an unrestricted GSP would really make a major difference. Yet, the simulation of the impact on world prices and EC trade flows of the liberali, i.e. extending the GSP to zero tariffs, of Community imports of six important tropical products - namely, coffee, cocoa, tobacco, rice, cassava and tropical vegetable oils - shows that the effects "are very significant to the GSP-eligible countries"⁷². Such a liberalization appears the more needed because the prices of tropical products, the LDCs' output of which continues to expand while world demand remains sluggish, present a rather gloomy long term outlook⁷³.

⁷⁰ Ibidem. Brown's adoption of a general equilibrium computational approach explains that the resulting estimates are substantially smaller than those obtained with partial equilibrium analysis by R.E. Baldwin and T. Murray ("MFN Tariff Reductions and Developing Countries" Economic Journal, 87, March 1977), G. Karsenty and S. Laird ("The GSP, Policy Options and the New Round", Weltwirtschaftliches Archiv, 123, 1987 and R.J. Langhammer (Ten Years of EEC's Generalized System of Preferences for Developing Countries: Success or Failure?, Working Paper no. 183, Kiel University, Institut fur Weltwirtschaft, 1983), because "general equilibrium changes in exchange rate and prices were found to offset a substantial portion of the impact effect of the GSP on trade" (Ibidem, p. 774).

⁷¹ Langhammer and Sapir, op. cit., pp. 79 and 74-75.

⁷² Davenport and Stevens, op. cit., p. 65.

⁷³ World Bank, Revision of Commodity Price Forecasts and Quarterly Review of Commodity Markets, Washington, September 1988.

3.4. Capital flows

EC countries remain an important source of foreign investment in certain LDCs, their share of DFI in the TW being 38% in 1970-71, 33% in 1979-81 and 40% in 1982-84. The direction of EC DFI cannot fail to be affected by changes in EE, particularly considering that the FRG has till now been the main source of DFI to the TW.

Given the advantages of producing within the unified EC market, Project 92 will also tend to attract DFI both from within and from without, hence contributing to further limit LDCs access to capital, and with it to technology, and hence their capacity to compete in the international market. Under these conditions the call within the Uruguay Round for LDCs trade liberalization appears irrelevant or even dangerous. If for other DCs it is possible to invest in the EC to enhance their presence there and hence reap the benefits of the growing competitiveness of the latter, the same strategy is not available to LDCs (except some NICs like South Korea which is expanding DFI in Europe). The only alternative left to most LDCs is that of joint-ventures, within the reduced capital available for investment in many parts of the TW.

The negative impact of the expected stagnation in investment, aid and technical assistance flowing to the TW in the near future, is compounded by the low likelihood of a substantial improvement in the prices of most primary products, with the notable exception of oil. Therefore, improved, i.e. preferential, access to their traditional markets - aside the promotion of their international competitiveness when the latter can be achieved without much foreign assistance - becomes even more relevant for many LDCs, including the ACP countries, although any such action will tend to reinforce the traditional international division of labour.

3.5. European Monetary Union

The ecu, a basket currency which has become the symbol of the EC monetary integration process, has official recognition in transactions among the European central banks and among the governments of the Community member countries. Its use has also experienced a considerable development in

international financial markets, although more modest in commercial transactions⁷⁴. The success of this innovation is due to both the EC's increasing relevance and to the stability that this monetary instrument has demonstrated, especially when compared to the high volatility and unpredictability of exchange rates, particularly against the US dollar, which have characterized financial markets during the 1980s. This area of exchange rate stability resulting from the establishment of the European Monetary System (EMS) has greatly reduced the exchange rate risk in intra-Community trade. Given then its low transaction costs and its relative stability, the utilization of the ecu could be very useful also in extra-Community trading, for both European and non-European operators, because it would tend

- (i) to stabilize export revenues of raw material suppliers by disengaging them from the fluctuations of the US dollar;
- (ii) to simplify currency management for extra-European operators trading with several EC partners;
- (iii) to facilitate access to Community financing; and, finally,
- (iv) to stabilize the value and the burden of the external debt of the TW⁷⁵, as well as of EE⁷⁶.

To these advantages which TW countries may derive from the reduction of the level of 'dollarisation' that characterizes international transactions, one should add also the possible contribution that the ecu could make to some of

⁷⁴ Among the several reasons for the ECU's difficult take-off as a commercial currency, some "lie at the institutional level (the lack of a European central bank and the negative attitude vis-a'-vis the ECU by certain monetary authorities), while others are traceable to market characteristics and, at a micro-level, to the treasury management practices followed by individual companies"; "The Commercial Use of the Ecu: Invoicing and Import-Export Practices", Ecu Newsletter, San Paolo, Tourin, 31, January 1990, p. 16.

⁷⁵ The Use of the Ecu in International Transactions: The Case of Latin American Countries, preliminary draft of the Summary Report, SDA-ISLA Bocconi University, Milan, February 1989, pp. 41-4.

⁷⁶ F. Bartha, "The Ecu and Implications for East-West Monetary Relations", ECU Newsletter, 29, July 1989, p. 28.

the integration processes taking place in the TW.

In order to facilitate the introduction of the ecu, the countries that opt for currency diversification should fix their exchange rates on the basis of a basket of currencies which also includes it and should increase its share in their reserves. The Community should instead denominate in ecu its foreign aid and any other intervention directed to these countries, establish a compensatory facility to stabilize the effects of exchange variations on the ecu denominated debt, and contribute to the creation of ecu denominated regional monetary instruments - something similar to the Andean peso utilized by the Andean Reserve Fund for compensating net balances arising among its member countries⁷⁷. Interesting in this respect, aside from the Andean Pact, is Africa's experience, particularly the Franc Zone which, created half a century ago, has provided some 15 LDCs with a monetary stability that it is unlikely they would have achieved otherwise⁷⁸. In any case, the EC's eventual monetary union also means that it will have to "effectively adopt the monetary burden (and benefits) of the Franc Zone", which could be absorbed into a larger ecu-based zone⁷⁹.

The intrinsic stability of ecu and the fact that it is not the currency of a single country, make it very appealing as an exchange currency, thus the discussion, during the second half of the 1980s, about the eventual creation of an ecu-based monetary zone with countries of the Middle East, Latin America, i.e. some of the most significant parts of the TW, plus some of EE.

If the absence of a structure for North-South monetary relations makes more difficult, among others, the management of the international debt, the expansion of the EMS could contribute to the promotion of such a co-operation.

⁷⁷ The Use of the Ecu..., op. cit., p. 43.

⁷⁸ P. Saclier, "A North-South, ECU-based monetary zone?", The Courier, 110, July-August 1988, p. 85. for the positive impact of the discipline imposed by monetary union participation on the relative growth performance of the countries of the Franc Zone, see P. Guillaumont, S. Guillaumont and P. Plane, "Participating in African Monetary Unions: An Alternative Evaluation", World Development, 16, 5, 1988.

⁷⁹ Hewitt, op. cit., p. 297. For the African countries' reactions to such a development of the Franc Zone, see "Frisson in the Franc Zone", South, September 1989.

However, restructuring EE's economies and German unification not only are going to absorb most European resources but they may also jeopardize the DM's stability and therefore the ecu's. Any complication that is going to affect EC's monetary unification will also thwart further expansion of the utilization of the ecu and abort the establishment of any such ecu-based area in the TW.

3.6. Development co-operation

"One of the most prominent features of the EC's development co-operation policy has been its regionalist approach in the geographical allocation of its development assistance, expressed through multiple regional discrimination"⁸⁰. The statement does not refer to member countries' bilateral aid, but to the Community's, which amounts to no more than 10% of the financial assistance given by the whole EC, although the bilateral aid is even more discriminatory.

The EC transfers resources to the TW in a multitude of ways:

- (i) disbursements by the European Development Fund and concessionary loans to ACP and Mediterranean countries by the European Investment Bank;
- (ii) emergency aid to non-associates, coming directly from EC budget;
- (iii) contributions to non-governmental organizations (NGO); and, more indirectly,
- (iv) Stabex and Sysmin, as far as these stabilization schemes involve a significant grant element; and
- (v) tariff preferences to LDCs, although the identification and measurement of their aid component has proved impossible.

To this one must add trade financing via export credit insurance which is

⁸⁰ C. Tsoutsoplides, "The Determinants of the Geographical Allocation of EC Aid to the Developing Countries", Graduate School of European and International Studies, University of Reading, Discussion Papers in European and International Social Science Research no. 30, March 1989, p. 2.

practiced by each EC member country according to national schemes which do not appear that will be replaced by a single Community agency.

Yet, against this transfer to the TW, there are the welfare losses suffered as result of EC protectionism, losses that, following recent general equilibrium studies relative to overall TW-DCs relationship, seem to outweigh the positive impact of aid received by the TW.

Furthermore, about 70% of bilateral aid from the EC countries - i.e. more than \$ 12 billion out of the total 17.6 provided in 1987-88⁸¹ - is estimated to be partially or entirely tied. Shifting from national tying to Community tying, i.e. allowing LDCs to buy from the cheapest Community source, may increase the value of the same aid to recipient countries by about 20%⁸², generating a gain of \$ 2.5 billion. This is equivalent to the most optimistic estimates, considered above, relative to the impact of Project 1992 on TW's commodity exports. The untying could be further enhanced by

- (i) reducing disparities in aid-volume performance between EC member states;
- (ii) co-ordinating co-operation at Community level, a process which will eventually transfer execution to Bruxelles and which, in turn can be facilitated by
- (iii) harmonizing national procedures.

Although untying bilateral trade implies that the remaining special bilateral relationships between EC countries and their former colonies be further dismantled, a large transfer of bilateral assistance to the Community may result even more useful for the TW. Such a possibility appears to be conditioned by the answers to the following questions:

- (i) will the implementation of Project 92 make such a transfer of resources

⁸¹ Figures at 1987 prices and exchange rates, excluding France's DOM-TOM; J. C. Wheeler, Development Co-operation in the 1990s: 1989 Report, OECD, Paris, 1989, Table 1, pp. 204-5.

⁸² C.P. Jepma, "The Impact of Untying Aid of the European Community Countries", World Development, 16, 7, 1988, pp. 797-98 and 804.

to the Community more feasible than it has been till now?

- (ii) will the priority of such a Community remain the same or will its interests be shifting?

In any case, for the present year, the total EC budget for development co-operation should - at first Ministers' Council's reading of the 1990 draft budget - increase by 91% for a total of about 1.4 million ecus, excluding co-operation with the ACP countries. The largest increase concerns Mediterranean countries, namely 15%, while that for LA is merely 5%. Namibia obtains 19 mil ecus; food aid increases by 5% and involves the largest single item in the development budget at nearly 500 billion ecus.

If the diversion of development resources towards EE is not yet apparent at the Community level, it is already taking place at the national level. While Italian development assistance to the TW has to all effects stopped, variable shares of it are being diverted towards EE by all the other remaining donors, including the USA and Japan and even the most pro-TW country like Sweden. The argument on which this eventual reduction of aid is being built centers around the assumption that after all the restructuring of Easter Europe should also be advantageous to the TW. This may be correct in the long, very long run, however it tends to dramatize the situation of many countries in the TW which face the problem of their immediate survival.

4. Conclusions

The proposition that, on the whole, the effect of Project 1992 on the TW was going to be positive, even if modestly so, has, since the dramatic change in EE, become even more questionable. Taking into account the cost of restructuring EE and of the German unification, the more likely negative effects of European integration on the TW could be:

- (i) the increased burden of servicing its external debt as the level of interest rates cannot but go up; and
- (ii) the decline in DFI and aid financing available for it, also as the increasing difficulty to service the debt may further reduce their

attraction for DFI;

(iii) the growing competition that its manufactured exports would have to face on the European market.

The impact of the integration on the raw materials of the TW may be mixed and possibly positive, though not excessively large, for some of them. However, the process of restructuring European economies may further generate innovations intending to replace many raw materials by less bulky, lighter and cheaper substitutes.

The TW situation could be made even worse if the predicted increase in the price of oil would materialize during the present decade. In fact, such an increase would have negative effects, directly on oil-importing LDCs, and indirectly on most TW countries. This would result from: firstly, the squeeze on their exports caused, as in the 70s, by the tight monetary policy pursued by DCs to fight the inflation induced by growing oil prices; and secondly, the deterioration of their terms of trade due to the increase of the prices of their manufactured imports.

In any case, the problems of EE and its insertion into the world economy will tend to absorb not only the whole of the EC's attention, but also most of its resources for many years to come. Even though the end of the East-West rivalry and the East's re-entry into the fold may not necessarily cause Europe's disengagement from the TW, there should be no doubt that the North-South dialogue has lost any immediacy and hence moved to the back-burner.

