

DEVELOPING CONFUSION: THE ECONOMIC CONSEQUENCES OF THE EU'S DEVELOPMENT POLICY

Paul Sammon

Junior Sophister

The evolution and consequences of the European Union's development policy are addressed in this essay by Paul Sammon. Forces for change in the policy are examined, as well as the detrimental effects of the CAP. He concludes that the EU does have a role to play in the development of the world's poorest economies, but that this is undermined by the persistence of CAP.

Introduction

The European Union is a true goliath in the global economic environment. Its capacity to influence the expansion paths of the world's Developing Countries (DCs) is immense. The EU accounts for 23% of DC's imports and 21% of their exports. In terms of Official Development Aid (ODA), the EU is the world's third largest donor, contributing some US\$4.91bn (Matthews 2004). Together with Member States' disbursements, 55% of ODA has its origins in this vast economic bloc. Clearly then, its potential influence is far-reaching.

The EU has styled itself as the champion of DC's interests, with the lofty ambition to "reduce poverty with a view to its eventual eradication" (European Commission 2004). The EU approach can be characterised by the three instruments it has at its disposal: its trade regime, development aid policy, and more lately, its political muscle. However, given the often ad hoc manner in which development policy has evolved, inconsistencies and conflicts in the policy have inevitably arisen. While some innovation has been shown possible, the cumbersome nature of policy-making has resulted in a development policy which has the interests of member states at heart, with sensitivities of DCs often sidelined. Indeed, the greatest impetus for reform of the EU's external policy has itself been external: the WTO/GATT.

This essay will firstly give an overview of the evolution and expansion of EU development policy. The question of why the EU holds that the principle of subsidiarity does not entirely apply to the subject will be addressed. This will be considered in relation to its aims of "co-ordination" and "complementarity" with

member state programmes. Within this context, the issue of aid will be shown to be of less importance than where the EU has its greatest strength: trade.

This issue will dominate the second section. The EU's most comprehensive preferential agreement with DCs, the Lomé Convention with the African, Caribbean, & Pacific (ACP) countries, will be looked at. Despite the notable aid flows, tariff advantages, and access afforded to them over 30 years, the ACP countries do not seem to have benefited significantly from them. Reasons for this failure will be shown, with particular reference to greater global trade liberalisation. Then, the new approach of the Cotonou Agreement will be briefly discussed, including the political leverage it attempts to introduce.

Finally, the greatest inconsistency of the EU's development policy will be examined: the continued existence of the Common Agricultural Policy (CAP), and its widespread ramifications for DCs. The vast majority of the world's poor are farmers. The gross distortions generated on the world market by such agricultural supports hurt the weakest the most. The exact effects will be treated, as well as WTO pressures for reform.

Overall, this essay will conclude that while the EU does have a role to play in the economic development of the world's poorest countries. However, the lack of "coherence" with other policies, as well as its past failures with the ACP countries, continue to undermine this role.

Evolution of Development Policy

The original basis for the EU's development policy is not what it is today. The focus was on the former colonies of the founding 6 members, and the historical ties between them. Indeed, in 1958, some of the founding members still had colonies. The European Development Fund channelled resources to these areas. With the accession of the UK in 1973, the policy quickly broadened in its breadth, with many English-speaking former colonies attracting funds. The Lomé Convention was established in 1975 as the centrepiece of EU development policy, with its deep trade preferences, commodity protocols, and partnership model. Otherwise, the Generalised System of Preferences (GSP), established in 1971, was intended to open access for other less developed countries.

Evidently, the policy was not one which was at the heart of the EU from its inception, but one which evolved according to short-term interests. As a result, no clear justification or objectives were established. Poverty reduction was sidelined, as political issues were more pressing, such as the need to maintain stability in Egypt and Israel during the Cold War.

However, a number of issues have fundamentally changed the nature of development policy. According to Matthews, old relationships, based on trade preferences and development aid, are being swept away as a result of a number of factors (2004). Most of this change is a result of external forces, however. First, with the event of greater trade liberalisation due to GATT and the WTO, the value of these preferences has fallen. In addition, GATT and WTO rules have forced the EU to abandon its preferential trade agreements as they were discriminatory. The EU has now agreed to “enter into WTO compatible trade arrangements with its Developing Country partners” (Matthews 2004). Pressure from within came from both increasing ‘aid fatigue’ and budgetary pressures.

Distinctive Incompetence

The resulting changes brought forth in the Maastricht Treaty started the re-orientation of the EU’s approach. Here, the application of the principle of subsidiarity was not clarified, with neither the EU nor member states apparently having a distinctive competence. The EU was given the legal responsibility to co-ordinate its development policy in league with member states. The Treaty also espoused to have ‘complementarity,’ ‘co-ordination,’ and ‘coherence’ between all policies of the EU and member states. This may be some fine alliteration, but without guidance on how they might actually be achieved, they seem rather pointless. The addition of the principle of ‘coherence,’ where other EU policies should not be contradictory to its development aims, only serves to highlight the dichotomy of the policy with the detrimental effects of its agricultural policies.

Even now, there does not appear to be a clear specialisation of tasks between common and national development programmes (Cosgrove-Sacks 1999). The impact of the total EU development effort is likely to dissipate with the persistence of overlapping, duplicated, and even conflicting actions. The EU remains “far from effective coordination of national programmes, the definition of joint regional and sectoral priorities, and the elaboration of strategies of assistance to specific countries” (ibid).

However, the EU’s most recent papers on development policy do seem to start to reconcile its role *vis-à-vis* member states. The prime concentration appears to be its economic and trade powers, which may be used to exact political leverage. Despite being dismissed as a economic giant, but political pigmy¹, political dialogue as a tool is very evident from the mission statement of the Directorate General for Development: “Our mission is to help to reduce and ultimately to eradicate poverty in the developing countries and to promote

¹The analogy was in fact first used in reference to the German Customs Union at the middle of the 19th Century.

sustainable development, democracy, peace and security” (European Commission 2004). However the role of development aid within this framework remains unclear.

Trade not Aid

EU ODA levels remain very significant, with many member states funnelling much of their aid budgets through the EU, such as Italy with 50% (Radtke 1999). The EU distributes this through geographical, thematic, and emergency programmes, each with its own array of sub-programmes and acronyms. Many aid schemes are quite innovative, such as STABEX, which compensates countries vulnerable to commodity price fluctuations.

However, strong growth in its aid budget did not lead to similar human resource growth. Management systems remained complex and divided. At the end of 2000, a €6bn backlog remained in unpaid commitments. Most were paid at the end of the year, raising questions about the accountability and quality of the aid.

Despite the creation of EuropeAid to alleviate these problems, evidence exists that aid programmes are not the most effective way of tackling poverty. Radtke claims ACP states gained more from trade, not aid (1999). For the twelve largest recipients of EU aid, its value represents less than a tenth of the value of their exports to the EU (Dearden 1998). Ultimately, the “development impact of multilateral aid from the Community to the associated countries is uncertain at best” (Grilli 1993).

Given the fact that the EU trade falls unambiguously within its competence, and that it is the world’s largest trading bloc, perhaps this is how it should target developing countries. It is in creating favourable trading opportunities for developing countries where their long-term future lies. But what has been the EU’s experience of this in the past, and what is shaping it today? These questions will now be addressed.

Trade: Preferences, Partners, and Prospects

This section will address the EU’s experience of trade with the DCs. Despite the GSP established in 1971, the centrepiece of the EU’s policy was the Preferential Trade Agreement (PTA) arranged with the ACP countries under Lomé I. At the time of signing, it was hailed as an innovative form of co-operation that would herald a new international economic order (Stephens 2000). Yet ACP

performance has proven dismal. Is it the fault of the PTA, or would it have been worse without it?

The Lessons of Lomé

The objective of the Lomé Convention was to “promote and expedite the economic, cultural, and social development of the ACP states” (European Commission 1990). Based on the notion of equity and partnership, it was hailed at the time as a new order in relations with DCs. The generous access and trade preferences were coupled with commodity protocols, which provided preferential prices, more flexible application of safeguard clauses, and rules of origin (Brulhart & Matthews 2004). However, despite these arrangements, ACP performance has been disappointing. Imports from ACP states into the EU increased from €10.5bn to €18bn in absolute terms between 1976 and 1992 (Radtke 1999). But their relative share of EU imports fell from 6.7% to 3.5% in the same period—they have gone from being the EU’s second most important source of imports to its second least (Stephens 2000). But why has this happened?

One explanation is that despite the potential for welfare improvements, there is an inverse relationship between preferences and trade performance. Commodity protocols have made traditional exports to Europe much more attractive than they otherwise would have been. Guaranteed high prices for commodities like bananas and sugar have dulled ACP efforts to diversify. When demand for primary products began to fall in the EU, the ACP countries were unable to adapt to their economies appropriately. According to Stephens, “the decline in the value of primary trade reflects and, in turn, influences the drastic fall in world prices for most of the ACP’s primary exports over the last decade and a half” (ibid).

Another reason is that with increased liberalisation of international trade, the value of preferences afforded to ACP states has been deflated. The Uruguay round brought about a general reduction in the Most-Favoured Nation (MFN) clause to around 3.9%. This reduced the absolute value of preferences to ACP countries (Radtke 1999).

Liberalisation also began to expose ACP countries. Lomé has long protected ACP countries from international competition from lower cost sources, for example lower cost banana producers in Latin America. The removal of trade barriers meant that the EU could not continue to use its traditional instruments to implement its commitments under Lomé. An attempt to impose a barrier to Latin American countries by preventing them from increasing their market share was found to be against GATT rules. Since the EU defended the Banana Protocol as part of the Lomé Convention, the entire convention became subject to investigations of its GATT compatibility (Stephens 2000).

Cotonou and the Future

It would appear that most policy makers in the EU believe that the Lomé Convention did not bring about sufficient benefits to justify its extension further. The former EU Commissioner with responsibility for development has said that the EU is

“at a turning point...We are witnessing trends towards liberalisation in the world and this will be deepened, so that any system based on preferences and trade barriers is condemned. We gave to find new ways of helping ACP countries” (Cosgrove-Sacks 1999).

The EU now appears to be attempting to create trade agreements with the ACP countries on a geographical basis. However, questions over the compatibility of such agreements with WTO rules still remain. Free Trade Areas are permitted under GATT, Art. 24. The main problem with the EU's preferential accords is that they are non-reciprocal and do not cover all developing countries. Special pleading on the basis of historical precedence to the WTO will not work.

The challenge for the EU, one they appear to be embracing under Cotonou, is to exact more political leverage. This change is not new, and is evident from the mid-term review of Lomé IV: “Respect for human rights, democratic principles and the rule of law...shall constitute an essential element of this Convention,” adding that “the historical and regional approach of EurAfrica, the notion of colonial heritage, has come to an end” (Radtke 1999).

Development cooperation should be conducted at a global level, under the guidance of economic rules determined by the WTO. Economic development and the modernisation of economies is likely to be faster when trade flows freely, and permeates the economy with new sources of knowledge, skill, enterprise, and capital (Cosgrove-Sacks 1999). Since the EU has put poverty reduction at the heart of its development strategy, perhaps the heterogeneity of the ACP states makes it a defunct entity. A new approach should be based on coherent geographical entities, with a trade policy which helps those DCs beyond the reach of Cotonou. However, such a policy must change the EU's greatest dichotomy with development: the persistence of CAP.

Capping CAP

Agricultural interventions have resulted in enormous budgetary costs, huge surpluses of farm products, major disputes with other countries and the

WTO, distorted international markets, and have benefited special interests that are often highly concentrated (Swinbank 1998). Are such interventions merely intended to correct for market imperfections, or are they the result of over-powerful farming and other interest groups in the member states? Such groups have been said to behave like an 800-pound gorilla: “they walk where they want, they sit where they want, and they take what they want” (Rausser 1992).

However, when they sit, it appears that the world’s weakest are the ones to get crushed. The vast majority of the world’s poor are farmers in developing countries. Their product prices are depressed by industrial country farm support programmes. According to the IMF, net exports of farm products on world markets drive down international food prices, hurting especially commodity producers (2002). Protection also imposes substantial long run costs by “inducing countries to specialise in areas that are not to their long run advantage, and by reducing trade and its associated benefits for growth” (ibid).

Herein lays the great contradiction of EU development policy. Policy coherence was enshrined in the Maastricht Treaty. However, CAP continues to undermine and discredit the EU’s development policy. Even the ACP countries faced significant barriers: imports of temperate agricultural products were capped by levies or quotas, despite the fact that ACP countries had a comparative advantage, especially in these commodities. Agriculture continues to be the area where the EU offers the least concessions in trade liberalisation. Local markets and local producers in West Africa, Brazil, Tanzania, Jamaica, and South Africa have all been documented to have been undermined by EU subsidized farm exports (Matthews 2004).

Sweetening Liberalisation

The case of sugar has been highlighted as imposing significant burdens on developing countries. A World Development Report estimated that sugar policies of industrialised countries cost DCs about \$7.4bn in lost export revenue during 1983, and reduced their real incomes by about \$2.1bn. It is estimated that today, DC economies in aggregate could benefit by \$1.1bn (ABARE 2000).

Indeed the potential for gains from agricultural liberalisation in general can result in gains for all. The World Bank estimates that static gains to DCs from liberalisation could amount to \$31bn by 2015. This increases to \$99bn when dynamic gains are considered such as more efficient use of resources and greater returns on capital (IMF 2002). Indeed, such estimates may be conservative given that increased trade is one of the keys to successful development in DCs.

The difficulties of reforming CAP come from within the EU. Proposals must pander to the prejudices of farm ministers through the QMV decision-making process (Swinbank 1998). But pressures for change will more than likely come

externally: any new round of multilateral trade talks in the WTO will no doubt require further reform of CAP. Whether or not they will be sufficient to aid DCs remains to be seen.

Conclusion

Since its inception, the EU's development policy has undergone dramatic shifts in personality. Originally, it was nothing short of a tether between early members and their former colonies. Poverty reduction was not at the heart of its strategy, resulting in a patchwork of policies and agreements, that did not have the long-term interests of DCs at the core. The lack of a clear and definite division of competencies between member states and the Commission caused duplication of resources and overlapping programmes, dissipating the effort of both. Since the EU has a distinctive competence in the area of trade, it is suggested here that that is where it should concentrate its resources, and not in the field of aid distribution, where competencies are ill-defined.

Regarding ACP countries, they performed anaemically throughout its PTA with the EU. The reasons for this include increased global liberalisation reducing the value of the Lomé Convention protocols; commodity barriers established by the EU; rules of origin barriers; and supply constraints within ACP countries. The changes brought about in Cotonou point towards more political orientated policy, with conditions such as democratic and human rights being added. In addition, a more geographic approach is suggested, with a renewed emphasis on poverty alleviation and elimination.

Finally, CAP was briefly discussed, and its sharply contradictory nature with development policy. The detrimental effects it has on the world's poorest were highlighted, including the effects on global sugar producers. This grotesque policy, which has long outlived its usefulness, must be radically reformed if the EU really wants to have a credible development policy.

Overall, the EU certainly has a distinctive role to play in development policy. First it must improve access for the poorest in the world, especially in agricultural terms. Without this, its policy will continue to be undermined. Also, given its vast economic power, it can influence global trade rules, and liberalise markets for the good of DCs. It is in this way that the long-term development of DCs can be achieved.

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