Development Policy '92: Farewell to the Third World

by Michael Dauderstädt

- Ineffective growth
- Irrelevant trade-policy adjustment
- Unenthusiastic aid
- Eurocentric perspectives
- Permanent crisis in the Third World

Summary

- If the EC is to benefit from an economic boost through the establishment of the Single European Market, developing countries stand to profit least from the process. At best, the more highly developed Newly Industrialised Countries will constitute an exception.

- The very minor adjustments of EC policy on external trade will, in themselves, do nothing to change either the EC's pyramid of preferences or its covert protectionism. As a result of pressure from the new Iberian members and of the inevitable opening to the East, structural changes can only be expected to worsen the position of the developing countries.

- The significance attached to development cooperation has been doubly reduced due to its own crisis of legitimation and to the ending of East-West competition in the Third World. In view of new spending priorities for the internal development of the EC and of cooperation with eastern Europe, development co-operation will stagnate.

- The Mediterranean enlargement and the Single European Market have created a new European self-confidence. This has also inspired and transformed the rest of Europe. Difficulties foreseeable on the southwestern and eastern periphery will primarily occupy the attention and resources of this new Europe.

- Debt, poverty, environment, security — the problems of the South will not disappear by looking to the East. Europe must face them and this requires a new policy on the South.

1. Ineffective growth

The (certainly not unanimously) expected dynamisation of the European economy after 1992 will benefit the developing countries

FRIEDRICH EBERT STIFTUNG

least of all. This is due to the fact that the EC's high level of development ensures — even with more imports being sucked into its market — that the patterns of trade put raw-material producers and suppliers of basic finished goods at a relative disadvantage. The chief beneficiaries are the suppliers of investment goods, more sophisticated products and, above all, of services which, if they do come from developing countries, come from the more highly developed Newly Industrialised Countries.

Suppliers within the EC are better placed to benefit from any future growth and will possibly even take business away from the developing countries. In the case of direct investment, a reorientation towards Spain and Portugal is already apparent. The patterns of trade may be expected to shift accordingly. Furthermore, the Iberian countries offer a range of benefits which compete directly with the developing countries — labour intensive low-wage manufacture, subtropical agriculture and tourism.

Developments in eastern Europe strengthen this Eurocentric trend. If democracy, private enterprise and openness to foreign trade prevail in Eastern Europe, these countries will be more attractive business locations and trading partners than most developing countries by virtue of their geographical proximity, high level of qualifications and low wage-costs, not to mention cultural factors.

On balance, there will be a close race between the redirection of trade and the effects of its expansion. Developing countries will lose markets in Europe by being displaced by southwestern and eastern European suppliers and this loss of markets can only be offset by a general increase in demand if there were a sustained and strong phase of growth. In any case, the losers are certain to be the poorest developing countries without any competitive industries.

2. Irrelevant trade-policy adjustment

The trade-policy implications of the scheduled Single European Market will have a direct bearing only on trade between EC member states. The extent to which the arrangements for foreign trade with developing countries will change depends on how far they are currently formulated specifically for individual EC member states. This is the case for example with the Multifibre Agreement, the Generalized System of Preferences (GSP) or Orderly Market Arrangements and product-specific regulations such as the Banana Protocol. Here, individual importing member states establish quotas for market access by third countries. In such cases, the member states can also prevent imports from other member states if goods are being re-exported in order to avoid quotas. Moreover, until 1992, Community member states will — under Article 115 of the EEC Treaty — be able to stop back-door trade in the case of those products they have restricted or banned from direct importation on the grounds of anticipated economic difficulties. Article 115 will have to be abolished, as will all the remaining national quotas, tariffs and non-tariff trade barriers. They can be replaced by EC-wide measures. However, it is likely that many countries, especially the new members of the EC, will reserve protective clauses for themselves or take concealed countermeasures.

A genuine and complete liberalisation of trade between member states will, in the medium term, probably weaken or terminate trade ties between individual EC member states and developing countries. French importers and consumers, for example, might then import an increasing amount of their tropical products from Latin America as do other countries. However, such changes primarily represent only a redistribution between the developing countries.

The new common trade policy will partly replace previous protectionist measures taken at national level. It is to be expected that the new trade policy will generally be more open

regarding tariffs and quotas and more restrictive regarding standards and similar regulations, particularly in the fields of health and environment. In the GATT context, the EC might respond to pressures from its new members and take even stronger recourse to its anyway notorious anti-dumping measures. The new instrument of "reciprocity" will also be used at the expense of the developing countries in view of the enormous gaps in economic productivity.

As for non-tariff trade barriers, the Single Market programme accepts that only some of the national regulations will be replaced by harmonised EC regulations. In most cases, the EC is willing to apply the new principle of mutual recognition of national regulations. This stipulates that a product which is approved in one EC country may also be sold in any other member state. Exporters from developing countries would then only have to go through one approval procedure, and could opt for the least demanding national authority. But even if there is no complete harmonisation, minimum requirements are to apply in many areas. In view of the growing concern over issues like environmental protection, all suppliers must expect to face tougher quality requirements. In specific cases these may be used as a cover for protectionist practices. The Iberian countries in particular can use their position as members of the standards committees of the EC, CENELEC and CEN in order to get the better of their competitors from Newly Industrialised Countries.

Finally, the excise-tax gaps in the EC — some of which are still very wide — have, at the least, to be narrowed. In some cases — such as coffee and tea in the Federal Republic — this will in principle allow price reductions, which might lead to a slight rise in consumption. On the other hand, a gradual adjustment of taxes on tobacco to meet the northern EC level could cause falling sales in the southern member states. Apart from that, the Single Market will change little or nothing with regard to those agricultural products so vital to the developing countries since it does not have a direct impact on the Common Agricultural Policy.

The overall impact of this realignment must be evaluated against the background of previous EC trade policy towards the developing countries. The EC has created a complex hierarchy of preferences in which the associate countries of the Mediterranean region and the ACP states enjoy a large measure of tariff-free access to EC markets while the other developing countries in the General Preference System have to pay low tariffs. In practice, however, two factors have undermined the value of this preference structure. Firstly, with large fluctuations in other costs the differences are too small for there to be any lasting impact on decisions on the location of businesses. Secondly, for the most part the EC has kept protection clauses or other loopholes which in most cases it promptly made use of whenever a developing country had become a serious competitor.

Yet despite all the trade-policy adjustment, we cannot expect to see a basic trend towards liberalisation and opening of the community vis-à-vis the developing countries. Essentially, we will be seeing a further redistribution of market access among the developing countries. It is the countries that are already successful which stand to gain most, unless the EC accentuates its pyramid of preferences more strongly. In addition, the new members will be pushing for trade-policy guarantees against outside competition to protect the advantages derived from the Single Market which they desperately need to compensate for the adjustment shock. Finally, the EC is opening its markets more widely to the reform-oriented eastern European countries, most of which are highly indebted to the OECD countries. Imports from Eastern Europe which formerly not even benefited from GATT rules, can now enter the EC market under the GSP, and probably soon under even more favorable conditions after some Eastern European countries having become associated members.

3. Unenthusiastic aid

Development co-operation in the strict sense of the term, i.e. essentially providing grants or concessionary credits and technical co-operation, is only indirectly affected by the Single Market project. Co-operation primarily affects the ACP countries where issues concerning the trade in finished goods play a relatively small role.

Two developments could produce favourable results. In the wake of economic growth the resources for development co-operation would expand, even if the ratio of development aid to GNP remained constant. If the EC were to liberalise government policies on public procurement and invitation to tender, e.g. by substituting national supply commitments with EC-wide supply commitments (purchase in any member state), then the cost-performance ratio in development co-operation would improve as the receiver could take advantage of supplies of better-quality and lower-priced goods.

Already development aid in the EC budget has to compete with the Common Agricultural Policy, traditionally the biggest chunk of budget expenditures. In future, it will also have to compete with increasing expectations for measures in the new member states, for policies accompanying the Single European Market and for eastern Europe. It is true that it is improbable that this will lead to a nominal decrease in resources earmarked for development co-operation. Neither the EC nor the individual member states want to curtail development aid in the face of their long-term commitments and the influence of development institutions and action groups. Nevertheless, a disproportionately large increase in budget appropriations cannot be expected, either from the EC or from its member states. At best, the Mediterranean countries, which so far have hardly been involved in development co-operation will soon be more active in this area, following the example set by Italy. New funds — if available — will be allocated to the new tasks in Europe.

Although a lack of political interest does reduce the quantity of assistance, it might create the prospect of a new quality of assistance since the logic of development co-operation has repeatedly been thwarted by the dominance of political and institutional priorities. Further Community-level integration of European development co-operation, 80 per cent of which is still handled on a bilateral basis, is conceivable. However, this is likely to be limited to cosmetic adjustments due to the continued existence of the diverse national implementation organisations and a multitude of other vested interests.

The Single European Market and the crisis of the planned economies in the East have given a boost to the philosophy of private enterprise and the free market. As a result of this trend, development co-operation is likely to become more of an instrument of the policy dialogue — i.e. encouraging free markets, mainly in the context of the structural adjustment programmes pursued by the IMF and the World Bank, which will then be backed by the EC. Developing countries can offer little political resistance to such a trend if they are losing geopolitical importance, especially with the USSR withdrawing from the Third World and ceasing to represent a viable alternative as a political ally and economic partner.

An additional and not insignificant source of financial resources for developing countries comes from the export promotion schemes operated by the industrialized countries. In a more closely integrated EC such national go-it-alones in foreign-trade policy would have to cease. It is a debatable point whether a common exportpromotion policy (competing with policies pursued by the other OECD countries) would tend to offer fewer concessions because the EC considered itself to be in a superior competitive position anyway, or whether subsidies would be handed out more generously — as part of an offensive export-marketing strategy — because the EC would become less sensitive to criticism from other industrialized countries.

As far as trade in raw materials is concerned, the increase in demand, possibly entailing

higher prices, could raise export revenue and thereby reduce transfers paid to the ACP countries arising from the STABEX and SYSMIN agreements. The funds saved would then be available for other purposes under the Lomé Treaty.

On balance, however, the importance of development co-operation will, decrease. Its reputation as an instrument for fighting poverty has been considerably damaged. Aid administration institutions have lost much of their credibility, if not to the same extent as those governments themselves of the poor countries receiving aid: hardly anyone now believes that these governments are capable of making any development effort at all. In day-to-day politics, this means a complete lack of legitimation to push through an increase in development aid against competing projects within Europe as a whole.

If any, it is the poorest developing countries in the ACP group which are most likely to receive some assistance in the form of, for example, banks and government creditors relieving them of most of their old debts or supporting those projects and programmes which coincide with the ecological interests of the EC or humanity in general. In many cases, both forms of support can be linked by financing ecological projects on the basis of the material value represented by the debt relief or on the basis of the difference between the nominal and actual values of the debt on the secondary market (debt-ecology-swaps). Some developing countries will need additional aid so as to be able to bring their export goods in line with the stricter EC environmental regulations to be adopted within the Single European Market.

But in the environmental sphere, too, the problems are no less urgent in eastern Europe than in the Third World. In eastern Europe in general, but especially in Czechoslovakia and the former GDR, the destrucition of the environment has reached proportions large enough to pose a massive threat to plant life and noticeably reduce life expectancy in certain regions. Considerable investment for the ecological restructuring of nuclear power stations and industrial plants is necessary. To this end, increased financial commitment by western Europe and in particular of the Federal Republic of Germany has either been pledged or is anticipated.

If the completion of the Single Market is accompanied by European monetary integration, Europe as a whole will gain in importance as a financial centre and also as a source of capital for developing countries. The EC market for financial services will be liberalised and is therefore likely to grow in efficiency and volume. If an increase in the EC's competitiveness is accompanied by an increase in its current account surplus, the Community will become an important exporter of capital. The ECU could then become the most important reserve currency alongside the yen and the US dollar.

4. Eurocentric perspectives

The Third World is "out", Europe is "in". As a result of the crisis of the early 1980s developing countries have lost much of their economic importance. Recession, an increase in interest rates and a strong dollar have, except in the Far East, eroded their growth and caused their foreign debt to skyrocket. At the same time, the failure of development co-operation and waning confidence in political intervention in the world economy – both reinforced in the wake of free enterprise euphoria – have harmed developing countries politically as much as international political détente did in the mid to late 1980s. The developing countries have hardly profited from the boom experienced in this second period.

In contrast, Europe has experienced a kind of renaissance in the second half of this century. Not only economically have things been looking up, enlargement to include the southern European countries and the Single European Market programme have given the EC new momentum. It is true that the Community still cannot stand up to the competitive edge of

the Japanese, but the star of its other main competitor, the U.S., has waned due to America's persistent twin deficit.

European businesses have been making investments in preparation for the more intense competition in the Single Market and to benefit from the growth prospects of its new members, Spain and Portugal. It is mainly the Federal Republic of Germany, as the largest supplier of capital goods, which has been reaping the ensuing profits. Germany's already strong position as the EC reserve-currency country and the dominant economic power will be further reinforced. Its pivotal position for Central Europe, especially in view of eastern Germany's integration into the West, will become a key factor in the foreign-policy orientation of the EC.

Not only the economic upswing in western Europe but also its new self-confidence sparked off in the eastern European planned economies the political crisis which had been simmering for a long time. The European model became attractive not only for neutral countries like Austria but also for the other central European states. Conversely, these countries have risen to the top of the EC's list of political and economic priorities.

Despite structural problems, these countries stand a fair chance of beating probably not the Newly Industrialising countries but certainly the weaker developing countries in the struggle for the western European market which is by far the largest import market in the world. This is true not least because investors from the EC, and also from other countries such as Japan, are becoming active in eastern Europe precisely because they share this assessment of the situation and will later produce for export to the EC. The central and eastern European countries need an increase in exports to the EC or to other hard-currency countries for the simple reason that this provides them with the funds necessary to service their high debts.

Thus, eastern Europe will almost invevitably enter into competition with the developing countries since its comparative advantages lie in similar areas: firstly, relatively low wages and, in some cases, the presence of raw materials. But in contrast to their position vis-àvis the developing countries, western Europe can ill afford to let the eastern european countries slide into what might first be an economic crisis but which could quickly escalate into a politico-military crisis. The most obvious consequence of such a policy, a flood of immigrants — which, for simple geographic reasons, would be more difficult to ward off than one from Africa — would alone be reason enough for special aid efforts. Lurking behind the economic problems there are far more important threats to Western security. These are the outbreak of minority conflicts, old border disputes, attempts by the military to rescue their nations, and "class struggles" of a completely new variety over the distribution of productive wealth still controlled by the government. Western and central Europe have a vital interest in defusing these potential crises, even if their efforts are simply designed to ensure that the people affected will at least not need to complain and argue about decreasing material prosperity.

This concern might be of less direct importance to the southern European countries, especially the Iberian newcomers, but they can hardly escape the pressure from the central European bloc in the EC. They can only seek to make sure that the growing co-operation with the East will not develop at their expense. In defending their interests, they will be in a better position than the developing countries since they are involved in joint EC policy-making. Against this background these countries' traditionally protectionist tendencies will intensify and turn against developing countries to compensate for having to accept the opening to the East. This protectionism will surely hit the Newly Industrialising countries more severely than the poorest of the developing contries: the latter have less to fear from EC protectionist measures because their competitive ability and their level of production is, in any case, very low.

The southern Europeans will, however, press for a continuation and intensification of EC de-

velopment policy in one area, namely the southern Mediterranean. Eastern Europe is to the central Europeans what the Maghreb and Mashreg are to the southern Europeans. We are referring here to the countries bordering the Mediterranean to the south which share the sea and a common history with the southern European nations. In these countries we are witnessing a dramatic population increase amidst an economic and political crisis. Emigration to southern Europe has already reached massive proportions and is putting increasing pressure on the domestic political situation of these countries, especially France. In the view of freedom of movement within the Community, the EC cannot continue to stand idly by on this issue.

5. Permanent crisis in the Third World

The Eurocentric reversal of priorities will prompt proponents of development co-operation to re-examine the foundations for their commitment to the Third World. Many of these remain valid regardless of the changes in Europe or even gain new importance due to these changes. The permanent crisis in the South will not stop just because Europe is entering a phase of introspection.

In some areas the economic upturn in Europe can aggravate the problems of the developing countries. Stronger growth is a burden on the environment and consumes more raw materials. Relative restraint in the financial transfers involved could cause the debt crisis to sharpen further. An increase in the potential threat posed by developing countries ultimately arises from a tragic link between advances in (weapons) technology and permanent social crises coupled with power structures lacking democratic checks or moral responsibility.

In some respects, the economic upturn could also positively influence the European stance. The widening gap between Europe's increasing economic prosperity and the poverty of many developing countries may rouse many Europeans' consciences. Global ecological interdependence is becoming a more pressing concern to the richer countries in particular. Détente may release defence budget resources which would then be available for other purposes. Removing political and economic interests from development policy may pave the way for mor objective policies. New forms of co-operation with eastern Europe may then serve as a model for development co-operation and trigger their reform.

But savings achieved in the defense sector have to be weighed against the costs of disarmament and arms control as well as expenditures to limit the negative effects of disarmament in terms of employment. Many groups in wealthy countries are indeed ready to make sacrifices in the face of hunger, misery and the threat of environmental catastrophe, but they are no longer ready to do so without being rewarded by the prospect of success. Not until development policy produces proof of real development rather than scandals, bureaucracy and the aggrandizement of the elite will development policy be able to count on people's willingness to make sacrifices, whereby real success, such as in the East Asian countries, would mean a speedy end to aid and the beginning of competition.

Dismay concerning the permanent crisis of the developing countries may not be enough – in the light of the overall trend – to bring about strategic re-orientation in favour of the developing countries. But the political weight of these long-term problem areas in North-South relations might be sufficient to create modest room for manoeuvre in development co-operation. Within the Lomé framework the EC could do away once and for all with protective clauses and other types of hidden protectionism and could grant the ACP states observer status in the standardisation committees (such as CEN/CENELEC) which are so important for gaining access to the Single European Market. Although it will be primarily investors from third countries who will take advantage of this, it will indirectly aid developing countries serving as locations for new production facilities.

The global challenges in the areas of poverty, security, environment and management of the world economy (indebtedness) will in any case have to be tackled by the EC not so much by development-co-operation – its use seems hardly plausible here anymore – but with a new foreign policy, or better still, a new global domestic policy. Financial grants to governments which are often partially responsible for their country's problems must be counted among the less suitable measures of action. Instead of granting help for self-deception, a remodelling of the EC's own policies which are seen to aggravate the Third World situation would be advisable. Such policies include the Common Agricultural Policy, international monetary policy measures (leading, for example, to high interest rates which worsen the debt crisis) and manifold interference in the internal conflicts of the developing countries.

Europe, and not only Europe, has the opportunity to attempt to meet these demands in the setting of a new geopolitical and global economic non-order. The economic rise of western Europe and Japan after the Second World War destroyed U.S. hegemony within the global capitalist system. In the realm of foreign policy the picture is being completed by the gradual Soviet withdrawal from the world stage. Thus, the last element of the U.S.'s hegemonic role, i.e. the security policy and military element, is losing its importance. As a result, the East-West conflict, which reached another peak unter the Reagan Administration, is gradually losing its dominant influence on North-South relations.

The attempts to support incompetent governments in developing countries for geostrategic reasons can now come to an end. The ensuing Third World disillusionment might leas to these countries tackling their own problems more vigorously rather than relying solely on outside help. On the basis of a new global domestic policy the North can devote itself to those new problems which are indeed crucial for the survival of humanity. However, at the beginning of this process, there will first be a great deal of confusion upon conducting an honest and self-critical examination of the results of those policies which had been expected to combat poverty, stabilize the world economy or save the environment. This sense of confusion will become worse as we also try to devise ways to prevent outbreaks of barbarism in the Third World that could seriously threaten peace.

The **Reihe Eurokolleg** is a series of papers which take up important aspects of the process of European unification. The aim of the series is to illuminate interrelated dimensions of the problems dealt with in each paper and to discuss related policy options. The **Reihe Eurokolleg** searches for clarity in complex issues and does not try to argue for particular political approaches. Each paper in the **Reihe Eurokolleg** is written subsequent to a specific "Eurokolleg" conference and is based on the intellectual fruits of discussion. The conferences are staged by the Friedrich-Ebert-Stiftung in various European capitals.

The author, Dr. Michael Dauderstädt, is member of the Department of Industrialized Countries of the Friedrich-Ebert-Foundation.

General editor: Dr. Wolfgang Renzsch

Translated by Bonn Script from "Entwicklungspolitik '92: Abkehr von der Dritten Welt" (Reihe Eurokolleg 3, 1990).

The **Reihe Eurokolleg** appears at irregular intervals. Order free of charge from the Friedrich-Ebert-Stiftung, Abteilung Industrieländer, Godesberger Allee 149, D-5300 Bonn 2.

Printing: DCM Druck Center Meckenheim, 1992