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Development aid

'Fresco' of Community action tomorrow

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contents

On 16 July the Commission put forward a memorandum on the forms of Community development aid already agreed upon or being examined (Com(74)800 final of 5 June 1974), and was invited by the Council to give its thoughts on Community cooperation with the third world in the coming years in the context of the world economic situation at the present time and in the foreseeable future.[1] As has been emphasized it is not a case of making precise proposals on any particular form of action but of providing in broad lines a 'fresco' of Community policy in the near future.

Such is our aim. In the first part the Commission sets out the main guidelines, which can be resumed thus:

To each according to his needs,

By bringing all our means to bear.

The following parts examine more closely divers aspects of the proof and the analysis.

The immediate priority of the Community is to honour the undertakings to the countries in the third world which have associate status or are being offered associated or preferential partnership; this is in the process of being achieved. The Commission has already undertaken to make precise proposals in respect of financial aid for non-associates; the proposals will be made as soon as possible after the Council of Ministers has given an initial consideration of the present document. The proposals will be made within the framework of the July document; they will be based on the ideas of the present paper and they will have as their aim a balanced relationship between the Community and the developing countries as a whole.

[1] Bull. EC 7/8-1974, point 2308.

Part I

The crisis, so harsh for one part of the world and yet favourable for another, brings to light factors —often dimly-perceived hitherto—in the life and outlook for the future of the developing countries; the blinding light of the evidence is that the problems are various and, consequently, various must also be the means of action to be used to hasten or engender the development of hundreds of millions of men and to prevent other hundreds of millions from sinking into crushing poverty. And so the providers of aid to the third world are now obliged to widen considerably the range of their thinking about the problem.

To each according to his needs

At the end of the colonial period, the third world felt united and could be considered to be so. While in the field of politics this situation still largely prevails, on a purely economic, social and human level the reality is very different.

Some are poor now, bowed down under the weight of nature, and disaster upon disaster. These are the thousand million of Mr McNamara's moving speech in Washington on 30 September 1974. For them survival is the problem. If the President of the World Bank is right—and nothing gives him the lie—years will pass before progress is again possible: even then it can only come if men, societies and countries are not so weakened that they lack the strength to pull themselves up.

Others, tomorrow's rich, are becoming the new bourgeois of the third world with all that involves in the way of passion for success, harshness in their relations with others, and the will to liberate their people, for all time, from the constraints which only yesterday still lay upon them. Many of them have the means to realize their ambitions. They consider themselves to be our equals now, and in many ways they are.

Between the two extremes—the haves and the have-nots—there are others. Nature has been kinder to them than to the have-nots but they cannot yet find a permanent place among the new haves. However, assidious effort and the proper use of resources and ability can make new or further development possible. There is material for progress here.

There are of course many countries which are both haves and have-nots at one and the same time, but one extreme will prevail, and in any case it is immediately clear that very different means of action must be used to reply to the extreme needs of one country and another.

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For the poorest of them, for McNamara's thousand million, it is financial aid that has the greatest meaning today in the short term. It will be so, as we have said, for years to come.

At a first stage it is a question of surviving, of avoiding total collapse in the present crises. This is the broad aim of the emergency action agreed by the United Nations last April.

During this period of recovery, a more permanent answer to the problem must be found. Tomorrow the thousand million must have at their disposal comparatively far greater financial resources than in the past; the statements by the President of the World Bank suggest how much finance they will need.

The industrialized countries will therefore be faced with the problem of financing greater amounts of aid, whether in cash or in kind. It is true that those which are still far from the 0.7% target set in the development decade have undertaken to reach it, but their financial constraints are such that it would be illusory or hypocritical to suggest that progress will be rapid.

At all events, account must be taken of the new classification of the developing countries in the light of the crisis. As soon as earlier commitments allow, the industrialized countries must redistribute their financial aid and resolutely give priority to the countries hardest hit by the crisis, to McNamara's thousand million. The rest will not be sacrificed, nevertheless, for other forms of aid will be given to them.

At the same time, the flow of funds towards the have-nots must be stepped up considerably.

This is imperative. And it is logical, and true to the economic nature of things, that the sources of this flow should be found where at present huge extra sums of money are pouring in because of the increase in the prices of raw materials of all kinds.

These sums, quite naturally, will first be employed on the spot in the new-rich countries with large populations and the right economic and sociological infrastructure to organize and use the capital.

But it is vital for the producers of raw materials to channel a major part of their accumulated wealth to the crying financial needs of people who are hungry for development.

We must, at once, learn to recognize an economic and political fact, one which may rapidly assume historic proportions. The will of those in authority and the very nature of things have started hundreds of thousands, thousands of millions of petrodollars on their way towards non-oil producing areas which have the use of them. A matter of weeks ago we were talking in terms of five thousand million dollars for the first year. A recent OECD report gives much higher figures. An evaluation would be premature, for no real analysis of the promises and commitments is possible while this phenomenon is in full evolution. But the facts are there and they are fundamental.

The transfer will be made in many cases directly from the producers of raw materials to the areas in need. But, as the President of the World Bank and the Director-General of the International Monetary Fund propose so convincingly, the international institutions must also be used to supply the countries affected by the crisis by borrowing on the financial markets so recently and richly supplied.

At this point in the reasoning, honesty requires the remark that such transfers benefit the industrialized countries' economies, since a portion of the price increases for raw materials may thus be transformed into capital and consumer goods for the poorest developing countries. The supply of these goods is clearly of great interest for the industrialized world, so long as the latter knows how to adapt its production to these new markets.

One conclusion stands out clearly; it is important for our balance of payments that we resolutely participate in such transfers, by intelligently reorientating our financial aid, by participating in joint schemes with the new possessors of wealth, by making the best use of international banking and financial facilities.

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It has been emphasized that that part of the third world which has been spared by the latest crises, and even some times served by them, should accept an overall reduction in the financial aid with which it has so far been provided—at least in the form of grants and concessional aid. But it has also been noted that those countries have other needs and their development could therefore be helped in another way (this will moreover be the case for the most deprived of them which regain sufficient force to start forging ahead).

To begin with, close cooperation between the economies of the industrialized countries and the countries which have become rich and whose human and sociological conditions are favourable must be mutually profitable.

The subjects of technical and industrial cooperation must be examined in this light. A grand design is to combine these countries' wealth in raw materials, population and area with the technology and the vast markets of the industrialized countries, and possibly with the capital derived from the sale of certain raw materials. This is the form of cooperation to which the new owners of wealth are the most attached and rightly so.

As regards the industrialized countries or groups of countries, the role of the public authorities will be many-sided; but, and this must be emphasized, it will remain secondary to that of operators in the private sector who, in our free enterprise system, take the decisions to invest, to undertake long-term contracts, to supply equipment, patents, processes, etc. However, government action, and in our case Community action, will have to make things easier by its encouragement, instigation, guarantee and direct incitement value.

In this context the priorities between developing countries will clearly be quite different from those which we referred to in respect of financial aid.

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While certain markets for raw materials are characterized by world shortages which will probably last, many others will continue to be affected by considerable fluctuations in the future.

For those countries—and it will be seen that some of them may be among the poorest—whose economy depends on income obtained on these markets, uncertainty and instability are serious impediments to development. Planning is difficult there and even impossible. It is a risky business in any case, since a bad year produces a hiatus in development and may compel such countries to enter into sudden additional indebtedness.

If it is truly resolved to take part in the development of the third world, the industrialized world must be ready, faced with such problems, to make the necessary sacrifices to open its markets wide, to make access to them easier, to encourage the manufacture of products from raw materials to an increasing degree of processing, and finally to stabilize as far as possible, the purchasing power corresponding to this export income.

These forms of commercial cooperation are of considerable importance. They contribute to the reinforcement of the developing countries' economies; they guarantee growth. Above all they enable the countries concerned to build their own future by their own efforts and progressively to reduce their financial dependence on foreign aid. The expression 'cooperation' acquires its true full significance since there are no longer donors and recipients; equality between partners is established.

Naturally enough the order of priorities will be different again this time between developing countries, the selection being made in favour of the countries and the sectors which are most dependent on exports of commodities and, as a first step, of those which have only one product to export.

Bringing all our means to bear

Let us now examine in broad outline the Community actions in the light of the general ideas which have just been expressed, remaining within the bounds of our means, which must be adapted to the new conditions where such adaptation has not yet been effected.

Under the Associations and the preferential cooperation agreements

It is relatively easy to apply these principles within the most complete system the Community has set up to contribute to development.

Whether cooperation is organized within a collective framework—today with the Yaoundé countries, tomorrow with the ACP, or on an individual basis, with each of the countries included in the 'overall approach towards the Mediterranean'—the intention is always to employ the different means of action which have been described above jointly and on an overall basis; this is a golden rule of the Association. Moreover, our Associates and ourselves sit round the same table; in this club, priorities and programmes are set by our Associates and not by ourselves; mutual aid is *de rigueur;* consultations and meetings, whether institutionalized or not, must be frequent; not only the executive bodies, but also the driving forces behind public opinion and the economy, members of parliament, manufacturers, businessmen and trade unionists must get together, get to know each other and exchange views. In this fashion it should be relatively easy to appreciate the real needs and, consequently, to adjust our means within the limits of our possibilities.

Two other factors will contribute to this necessary adaptation within our associations: there are 44 ACP States, and there will shortly be 47; they represent Black Africa; they are justly proud of the fact and truly confident, and this ensures a certain equality in the dialogue between them and ourselves.

And, since the expression is being used, it must be noted that there is also the impression of a relative equality between Israel and the Community and between the Arab countries and the Community, but for other reasons previously stated.

The Associations, moreover, are the result of contractual Acts.

Once the conventions are signed, our Associates are assured of Community aid in all its forms: we have the right neither to revoke nor to modify our undertakings for the duration of the contract; this is a valuable stabilizing factor for development.

Since the very philosophy of Association includes the requirement to adjust to needs, we should not be surprised to perceive that such adjustment is taking shape during the present negotiations wherever there is a need for it.

At the level of trade cooperation, there is no call for fresh comment on the methods of action used in the past. They will be improved in various respects (rules of origin, agricultural products) for all the Associates, and their field of application will be broadened for the Mediterranean countries.

The introduction of the principle agreed in July at Kingston for the stabilization of export earnings in money terms constitutes a very important innovation. It may be compared to recognition of the right to unemployment and sickness benefit for workers in our countries. Of course, it does not constitute index-linking, the sliding scale requested by the third world, but it is an important step towards a new economic order. And as regards one product, sugar, the Commission recommends going further by more or less linking the price guaranteed to ACP producers to that paid to the Community producers, which would introduce a relation with the effects of inflation clearly taken into account in some fashion when European agricultural prices are fixed. In the case of sugar, guaranteed supplies and outlets go hand-in-hand, thus completing the system.

The stress laid on industrial cooperation is new. Naturally enough, at Kingston, our Associates asked us to give it an important place, which was accepted. Interest in it is even greater in the Arab countries and in Israel. It is no exaggeration to say that, as far as the most developed of them are concerned, it is the main issue, the only one which really counts in cooperation with the Community and the European countries. It is also an aim of prime importance in the Euro-Arab dialogue. We shall therefore have to use a lot of imagination, of flexibility, whether we are dealing with investment guarantees, systematic organization of meetings between the circles concerned, or support of our operators in these ventures. This is a consequence of our desire to adapt our aid to the specific needs of our partners.

The new guidelines are therefore being drafted in the current or imminent negotiations. In one field, however, there will have to be difficult decisions in the coming months, that of financial aid. The Community has already decided to increase appreciably the volume of grants and loans placed at the disposal of our ACP and Maghreb Associates. But, in the ACP club, the conclusion will also have to be drawn from the remarks made previously on the shifting of financial aid—more especially grants and concessional aid—from the countries which are now better-off to the poorest countries, the worst hit by the crisis. Thus the poorest countries—unfortunately the ACP group contains many—will benefit not only from the upgrading in money terms agreed by the Council, but, additionally, from some transfer of Community aid previously allotted to less deprived countries.

On the world scale

The two major means of action set out in the first part must be considered separately.

The need to increase the financial aid made available to the whole of the third world and to distribute it according to individual requirements concerns the Community in several ways.

Firstly, at the risk of seriously contradicting ourselves, we must, in our food aid programme, base ourselves on previous guidelines. The food shortage has gone beyond warning point. Everything has combined to make starvation and the enfeeblement of entire peoples immediate threats once more. Therefore, as has been proposed by the Commission, the volume of our food aid must be increased; target programmes must be set to permit planning over several years. Action by the Member States and by the Community must continue to be combined. Finally, right from 1975 it must as a matter of absolute priority serve those who are suffering most and who risk being the first to die. The Indian subcontinent, the Sahel and other areas of despair must receive almost all the manna we can supply.

There is also direct financial aid. The Community has played an invaluable role in providing the initiative for the adoption in principle of United Nations emergency action for the countries worst hit by the crisis. It must continue to rouse the other donors so that this action reaches the desired proportions in the nine remaining months. By acting in this way, the Community has shown that the resolution adopted recently by the Council concerning financial aid to non-associates[1] was not a vain declaration; it has immediately given it substance for the 1974/1975 period. It has also demonstrated that its financial aid at world level could come into its own only in cooperation with others.

Several hundred million units of account represents a heavy extra burden on the Community budget and, shared out among one or two thousand million inhabitants, amounts merely to almsgiving. However, such sums are of considerable significance if they are combined with action by the Member Governments,[2] and in some cases, as in that of the emergency action, the importance will become apparent of acting through the Community rather than directly. This significance is strengthened if an initiative by the Community can be dovetailed into a concrete programme adopted on an international scale and grouping together many other donors. Tomorrow, our financial aid to non-associates must not be dispersed. While being of necessity selective and complementary to other kinds of action, whether of the Member States or the Community, it will have to be devoted to precise objectives: increasing agricultural production, stockpiling reserves, participation in important programmes, intervening in cases of distress, etc. Many ideas come to mind but in none of these will the Community contribution ever be isolated. It will normally endeavour to bridge any gaps or, better still, to act as a catalyst.

It must finally be noted that the Community and its Member States must, within the context of the coordination now planned between them, be able to play an important role in the international financial institutions in order to facilitate the transfer of large sums from the countries which have recently acquired wealth to the seriously impoverished countries.

At trade level, the generalized system of preferences set up in 1971 for the benefit of all developing countries goes a long way towards meeting the need referred to above to open the markets for industrial products. Community action here has—this can be said without any need for modesty—been an example to the world. The Council is resolved to continue along this road, where unilateral action by Member Governments is clearly impossible.

It should, however, be noted that selectivity does not at this level necessarily provide the perfect solution. To gain the most from the GSP a developing country must be well equipped for trade. The most advanced countries are thus best served and we must endeavour to help the others to get to know better and exploit the advantages which we are offering. Certain

[1] Bull. EC 7/8-1974, point 1222.

[2] This is the moment to recall the intention to harmonize bilateral aid policies expressed in a recent Council Resolution.

recommendations presented by the Commission to the Council to improve the system in 1975 are aimed at doing this. The effort which the Community will make to assist the trade promotion of products from the third world is also an intelligent form of measure.

Similarly, some thought will have to be given to the question of whether and in what way the Community can offer a positive response to countries wishing to set up with it forms of cooperation going beyond the trade cooperation that has been usual so far, in particular industrial and technological cooperation.[1]

The decision taken at Kingston in July is a milestone on the road to stabilizing export earnings. The Community has stressed that it would be impossible to proceed further along this road by itself.

The Community must, however, show itself to be more insistent, persuasive, and occasionally provocative—at every favourable opportunity—in the discussions desirable at world level, to reach world commodity agreements and a certain degree of international organization of markets. The madness by which these markets have been overtaken for the past eighteen months is providing arguments based on common sense in addition to those provided by rational thinking. The European countries which, like Japan, are so heavily dependent on their imports of raw materials cannot wait indefinitely for these problems to be dealt with and for stability finally to take hold. Such stability will necessarily involve prices providing a fair reward for the producers of raw materials in exchange for guarantees of regular, non-discriminatory supplies on the world market.

The intimate links which exist and are going to develop within the different associations between the Community and fifty or so developing countries belonging to all classes of countries in the new third world—and, to a different degree, the contractual relations being established between the Community and a number of other developing countries—should permit the consultations and exchanges of views required to show clearly the importance of this for all the countries of the world for which imports or exports of raw materials are vital. The Community must therefore be able to play a leading role in a debate which, no one doubts, will be in the forefront of relations between the third world and industrialized countries during the next decade.

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These are the various ideas which the Commission would like to present on the current and foreseeable economic situation of the developing countries, on the methods of promoting their development and on the particular organization of these methods at Community level.

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[1] As was requested by countries such as India, Pakistan, the ASEAN countries, Mexico, Argentina, Brazil, etc.

Part II

Chapter I

The diversity of underdevelopment situations

The increased price of oil, of fertilizers and basic food products has thrown into relief the diversity of the underdevelopment situations.

Where it is proposed to extend the scope of and intensify Community development cooperation policy, an appreciation of this diversity is the point of departure for implementing Community measures, which will be characterized by, among other things, their limited nature.

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The situations differ firstly in respect of the levels of development. Per capita gross national product is the most convenient but also the most rudimentary of the yardsticks used to measure the levels of development.

It enables a clear distinction to be drawn between three major groups of developing countries, each of different size in terms of population, out of a total population of nearly 1 700 million:[1]

(i) 42 very poor countries, whose per capita GNP is on average around $110 and never rises above $220,[2] representing 64% of the total population considered, i.e. approximately 1 100 million;

(ii) 36 medium-income countries, whose per capita GNP ranges between $220 and $530 (average $330), grouping together 26% of the total population of the developing countries, i.e. nearly 450 million people.

(iii) 21 high-income countries, whose per capita GNP exceeds $640, accounting for only 10% of the total population of the developing countries, i.e. 170 million people.

Although this initial classification is a rough and ready one it has the merit of being clear cut. There are few cases of countries being situated on the borderline between two groups.[3]

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However, the three groups of developing countries as defined in this way are too much of a mixed bag for an idea to be gained of the diversity of the situations to which a Community cooperation policy should be adapted. Moreover, because this classification is static in character it teaches us hardly anything about the nature of the development process or of the underdevelopment situations in the various groups of developing countries.

The developing countries thus had to be further classified according to their most important structural characteristics. Of the many criteria available, preference was first given to those which enable distinctions to be made between the developing countries on the basis of their relative importance and the way they fit into the international trade network. These factors may in their turn be explained initially in terms of the factors common to several countries (population, degree of industrialization), which gives rise to new groupings.

Underdevelopment can thus be divided into the following types:

Poor countries with small exportable surplus

These, in the first type of situation, are countries having a low population and suffering from geographical or historical handicaps which mean that from their mediocre productive potential they are unable to produce an exportable surplus enabling them to play an active part in the international division of labour. In these coun-

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[1] 99 countries, including only the independent developing countries (or those about to gain independence) with a population of over 400 000, and excluding the socialist countries and Portugal, Spain, Greece, Turkey, Cyprus and Malta. See table p. 23.

[2] The data on per capita GNP and population of the developing countries were taken from the 1971 World Bank Atlas, except for the oil-producing countries whose per capita GNP has been calculated for 1974.

[3] Five countries only, whose per capita GNP exceeds $200 but is below $250 per annum, are on the border between the group of poor countries and that of medium-income countries; between the latter and the high-income developing countries there are only four countries in the $460 to $660 range.

tries, which all belong to the poor countries group and which are nearly all on the United Nations list of least advanced developing countries, exports seldom contribute more than 10% of GNP. This group also includes countries whose production available for foreign trade contributes very little to the formation of GDP because of their high populations. The large populations of the Indian subcontinent and Indonesia mean that despite the poverty, there are vast domestic markets: as a result exports represent only 5 to 7% of GNP for the three countries of the Indian subcontinent;

Countries whose economies are dependent on the export of commodities

In this case we may well speak of dependence since the export of a small number of agricultural and mineral products contributes 20 to 30% (and often more) to these countries' GNP.

The population of the countries with this type of primary and extrovert economy is divided in equal proportions between the poor countries group and that of the medium-income countries. Some high-income countries of the Caribbean and Central America have the same structural characteristics;

Countries which are in the process of becoming industrialized or are already semi-industrialized

These are either medium-income (average *per capita* GNP: $330) or high-income countries (average *per capita* GNP: $950 in which the manufacturing industry's contribution to the GNP generally exceeds 20%, in which less than 40% of the active population is engaged in agriculture and whose economies are generally less 'open' than those of countries dependent upon the export of commodities.[1]

If in some cases future developments are anticipated, oil-producing countries which are tending to use their increased earnings to finance their industrial development (Venezuela, Iran, Algeria and even Nigeria) may be included under this type of economy;

Oil-producing countries with low domestic absorption capacity

These include the small group of countries whose populations are not large enough to cope with the enormous resources which their countries obtain from exporting their oil earnings.

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Combination of the two approaches sketched out above (income level and structural characteristics) gives an outline economic geography of the developing world which does justice to the diversity of the under-development situations without creating an excessive number of major classifications. Eight groups of developing countries can then be distinguished (see Tables in Annex):

(i) small poor countries with a low exportable surplus;

(ii) heavily-populated poor countries, with a vast internal market;

(iii) poor countries whose economy depends on the export of commodities;

(iv) medium-income countries producing primary products;

(v) high-income countries producing primary products;

(vi) medium-income countries which are in the process of becoming industrialized;

(vii) semi-industrialized high-income countries;

(viii) oil-producing countries with a low absorption capacity.

This classification is obviously in no way absolute or final. It would be modified if other criteria were included; it will change with the passage of time as the developing countries' economic structures are transformed. Moreover, some of these classifications can be applied within large countries where there are marked regional or sectoral disparities.

[1] Except Hong Kong, Singapore and Taiwan.

Chapter II

Selectivity in the Community's overall cooperation policy

From the substantial differences between the various groups of developing countries as classified in the preceding chapter there may be drawn an initial conclusion on the suitability of the instruments of cooperation for solving the specific problems of developing countries.

The diversity of situations is matched by a diversity of needs—*vis-à-vis* the outside world—and hence of forms of action or combinations thereof. On the financial side such action may range from the transfer of grants to straight encouragement of private capital flows—in the form, for example, of guarantees for private investors—and on the trade side from purchasing commitments to the opening up of markets.

With certain countries, for example, it is a question of providing them for an unspecified period of time with the resources necessary for their survival, principally in the form of gifts.

Others need to be helped to develop and become integrated in the world economy through operations making use of a very diversified range of instruments in varying combinations and varying measure.

With most of these developing countries the main objective must be to help overcome the structural obstacles they face by means of financial and technical assistance directed towards the most pressing specific problems. This financial aid will have to be progressively supplemented by trade arrangements designed to facilitate the sale of their exportable products, and by industrial and technological cooperation.

As regards yet other countries, which have already reached a fairly high level of development or have exportable resources bringing in substantial earnings from abroad (the oil-producing countries and the like), cooperation must be concentrated primarily on sharing our technical knowhow and, above all, on opening up markets. These countries, which have adequate self-financing capacity and development prospects exercising a major force of attraction on private capital, do not so much need financial aid—if at all—as cooperation in the fields of industry and technology and in trade.

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Is it possible to go beyond this brief outline and draw up an inventory of forms of cooperation broken down by the priorities arising from the different types of underdevelopment? This would be inadvisable, since it is very difficult to steer safely between the twin shoals of rigidity, which amounts to inapplicability, and flexibility, which deprives the exercise of much of its point.

In the case in point there is moreover a third dimension over and above those of type of underdevelopment and type of operation, namely the limited means available as compared with the demand for cooperation. It is this extra dimension which, necessitating as it does a selective approach, in effect dictates the priorities to be observed.

The fundamental criterion for this selective approach could only be that of needs, both structural and exceptional. In addition to this main criterion a number of subsidiary criteria, to facilitate the choice between potential recipients and to ensure that Community aid is as effective as possible, should also be taken into account. These subsidiary criteria should comprise *inter alia* the efforts made by the countries concerned themselves, their ability to use increased aid effectively and the volume of any other aid they may receive.

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In view of the above considerations, it is possible to take stock of the instruments available and assess what has been achieved and where the deficiencies lie in relation to the requirements of the overall cooperation policy which the Community should implement in conjunction with the Member States.

The common commercial policy has been used to facilitate penetration of the Community market by manufactured products exported by countries in the process of becoming industrialized.

Those among them which belong to the two groups considered (6 and 7) but are not yet linked to the Community by *association agreements* or *preferential trade agreements* are among the main beneficiaries of the *system of generalized preferences*. Account will therefore have to be taken, when the geographical distribution of the other instruments of Community cooperation is appraised, of the specific advantages derived by these industrializing countries from the use by the Community of the tariff as an instrument of development cooperation.

As in the past, it will also be necessary to seek possible loopholes which, while complying with the rules of the common agricultural policy, will enable us to reduce or eliminate tariff and non-tariff barriers in respect of developing countries which are major suppliers of products for which there are no serious problems of competition with the ACP.

The arrangements for stabilizing export earnings in countries whose exports consist primarily of commodities have been agreed in principle for the ACP countries since Kingston.

This form of cooperation is undoubtedly one of the best suited to the structural characteristics of the economy of these countries.

It will extend to almost all the poorest countries whose economy depends on commodity exports (group 3), as well as all the African countries of group 4 (medium-income commodity exporters), or altogether more than 10% of the population of the developing countries. It should be noted that among the countries dependent on commodity exports the ACP countries, covered by the stabilization system, are the most dependent on the European market.

If the European example leads the other major industrialized countries to rethink the *way the commodities markets work* and thus opens the way to more far reaching solutions on a world-wide scale, the conditions for development of more than 20% of the developing countries' total population will be favourably modified.

Technical assistance to promote trade is no longer reserved for the associated countries only. It is of interest not only to the other countries producing raw materials but also—and in very large measure—to the countries which could make more of the system of generalized preferences.

Industrial cooperation and scientific and technological cooperation require instruments that the Community as such has so far little used but is now considering incorporating in the association agreements negotiated with the ACP and Maghreb countries and the cooperation agreements being considered with other Mediterranean countries, linked with the free access of manufactured products to its own market. There is no reason why these instruments should not also be introduced in relations with other developing countries, in Latin America and Asia.[1]

The Community will therefore be in a position to meet the expectations of those developing countries which belong to the two medium-income groups: those which are already on the way to industrialization and those whose economy remains dependent on commodity exports because of the narrowness of the home market. In this connection, public support for private investment—possibly in a form of a *Community guarantee for investments*—is absolutely essential.

Technical assistance for regional cooperation interests a growing number of developing countries whose development and structural transformation are restricted by the narrowness of the home market. It can henceforth be made available both to associated and to non-associated countries.

Finally, financial cooperation remains the most necessary instrument of an overall cooperation policy.

[1] In this connection, see *inter alia* the Commission Recommendation to the Council on the opening of negotiations with Mexico (Bull. EC 10-1974, point 2337), and the minutes of the first meeting of the EEC-India Joint Committee (Bull. EC 5-1974, point 2328).

The pattern of types of development situation suggests that, because of the scarcity of available resources, financial assistance on the most favourable terms *should be given* by way of priority to the poorest countries (groups 1, 2 and 3).

The ACP countries are broadly represented in groups 1 and 3, but the Indian subcontinent (group 2), which accounts on its own for 45% of the total population of the developing countries, bears the whole brunt of the unequal distribution of development aid among the developing countries.

In the next few years, all the rich countries in the world (including the oil-producing countries which have surplus resources) will have to take concerted action to increase considerably their capital contributions to these countries on the most favourable conditions.

The World Bank estimates that official development aid to these countries will have to be tripled before 1980 to do no more than keep their economies growing at the same rate as their populations. To increase per capita income in these countries, the contribution would have to be even greater.

The Community as such did not until now have available the necessary means to make a financial contribution to the development of these countries. For this reason, the Council's decision in principle on financial assistance to non-associated countries is of considerable importance for the countries of the Indian subcontinent (group 2), for according to the criteria stated above these countries will necessarily be the first and main recipients.

In these countries, the priority as regards cooperation will undoubtedly be aid to develop food production. If such aid is not provided, it would be vain to hope that the economic, political and social consequences of the recurrent food crises suffered by the poorest countries will spare the rich countries indefinitely. It will therefore be necessary to check at international level that this priority is constantly observed.

For most of the medium-income countries, financial cooperation is no more than a palliative to the lack of guaranteed export earnings, market access and efficient industrial cooperation.

Save in the event of natural disasters (such as drought), their level of development should enable them to finance further development without having to draw widely on grant aid. Financial cooperation may be useful for providing these countries, even on terms equivalent to the opportunity cost of the capital, with the means of long-term financing which they would not be able to obtain from the capital market—that is if means are available.

Finally, as regards *high-income countries,* a large reserve should be set aside to ensure proper utilization of scarce resources.

Except when unforeseeable disasters occur elsewhere in the world, *food aid,* which is a form of financial cooperation, primarily meets the immediate needs of the least well-endowed among the poor countries: these are the countries falling within groups 1 and 2 defined above. To be fully effective, it should be covered by a medium-term target programme based on the foreseeable needs of the countries most threatened by the imbalance between the rate of population growth and the rate of increase in food production.[1] It is vital, moreover, that the Community's efforts in this field should be part of a concerted worldwide programme.

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[1] Owing to population growth, demand for cereals in Asia is expected to increase from 300 to 400 million metric tons between 1970 and 1980, with the countries of the Indian subcontinent accounting for 40% of this increase in demand (FAO, Population and Food Supply in Asia, Economic Bulletin for Asia and the Far East, No 1, June 1973).

Chapter III

Financial and technical cooperation provided by the Community outside association arrangements

The first objective which the Community should set is obviously that of effectiveness:

(i) Any operations contemplated should *complement those of the Member States* as far as possible. The non-associated developing countries very rarely make a distinction between the Community and the Nine (or some of the latter). It would therefore be desirable to ensure that there is the greatest possible cohesion between Community operations and those of the Member States;

(ii) Community operations should be placed within the *overall context of action taken by all aid donors*. The fact that there are international groups providing assistance for the countries referred to as requiring priority attention is a valuable additional help.

A second objective should be that of *safeguarding the identity* of the Community:

(i) Provided there are sufficient resources available and subject to knowledge of the subjects and countries concerned, preference should be given to *direct action*, which best guarantees Community identity and permits dovetailing with action undertaken by the Member States;

(ii) In addition, certain operations could be carried out through *regional bodies*, provided of course that this approach ties in with the guidelines laid down in respect of allocation criteria and fields of action.

(iii) The Community will of course be able to continue acting through world bodies too provided it is accepted that the Community's efforts would become virtually anonymous, the balance between recipient developing countries would be subject to other criteria, the combination of financial aid and trade facilities would no longer be possible and the EEC would be unable to channel aid into specific sectors.

Thirdly, it would be preferable to prevent the necessarily limited means available from being spread too thinly by setting certain *priority objectives* to be followed as a normal rule, particularly for financial cooperation:

(i) In view of the essential and urgent needs of the countries which are more likely to be the subject of Community action, the meeting of *food requirements* should be treated as a priority in order to ensure that food aid—a short- and medium-term operation—is followed up effectively in the long term;

(ii) Moreover, a definite preference should continue to be given to *schemes encouraging regional cooperation and integration between the developing countries*. Not only is such preference consistent with the purpose of the Community, but also it is in line with the criterion of effectiveness in that it seeks economies of scale and causes the developing countries concerned to determine their priorities jointly;

(iii) Finally, steps should be taken to guard against laying down rigid guidelines and committing all foreseeable funds, for experience has shown that catastrophic events may suddenly occur to which an entity such as the Community cannot, and does not wish to, remain indifferent. The possibility of taking action as required by *circumstances* must therefore remain.

As regards *terms and implementing details*, EEC aid both inside and outside association arrangements will normally have to cover the *whole range of financing instruments* from straight grants to loans on market terms, which could be provided by the EIB. However, in view of the limited external debt capacity of most of the developing countries to which the Community will direct its efforts, grants will have to take first place in the Community programme.

(i) In any event the breakdown of aid into grants and loans and the terms of the loans will always have to be adapted primarily to the *situation of the recipient countries* (level of development and external debt capacity); countries below a certain level of development, particularly the 25 least developed countries, will have to receive mainly grants or loans on particularly advantageous terms, for example interest-free. Where the terms suited to the situation of the recipient country are at variance with those warranted by the profitability of the project up for financing, the two-tier loan system will have to be applied;

(ii) It will have to be possible to use Community aid for providing *technical assistance, financing capital projects* and, in appropriate cases (with particular account being taken of the administrative capabilities of the countries concerned), financing *sectoral programmes* in the fields earmarked for action;

(iii) At the level of the nine Member States aid from the Community to the developing countries will have to be *untied*. In this connection, a certain preference margin could be given on a case-by-case basis to suppliers and firms of the developing countries;

(iv) Finally, as regards the Community's internal *decision-making* and administrative procedures, those adopted in respect of the associated countries will have to be so applied that the best possible use is made of nearly 17 years of experience.

Statistical annex

Population

	'000	% of group	% of subgroup	% of total	Per cap. GNP in $ (average)	Exp. as % of GNP
Total 99 countries	1 722 500			100		
Poor countries (42 countries)	1 101 200	100		64	109	
(i) with small exportable surplus	140 440	13	100	8	90	
in Africa	61 410	6	44	4	87	10 to 14
in Asia	74 730	7	53	4	90	under 10
(ii) highly populated (Asian)	806 200	73	100	47	106	5 to 7
(iii) commodity exports	154 500	14	100	9	144	
in Africa	99 248	9	64	6	123	20 to 30
in Asia	50 150	5	32	3	192	17 to 25
Countries with medium income (36 countries)	453 200	100		26	330	
(i) commodity exporters	154 600	34	100	9	350	
in Africa	38 400	9	25	2	290	10 to 60
in Mediterranean	29 500	7	19	2	280	15 to 25
in Asia	14 500	3	9	1	380	40
in South-American	45 100	10	29	3	390	15 to 20
in Central American - Caribbean	27 100	6	18	2	420	15 to 30
(ii) becoming industrialized	298 600	66	100	17	330	
in Asia	84 650	19	28	5	290	15 to 35
in Mediterranean	48 480	11	16	3	310	7 to 15
in South America (Brazil)	95 435	21	32	6	460	9
in Africa (Nigeria)	70 000	16	23	4	230	—
Countries with high income (21 countries)	168 100	100		10	1 250	
(i) commodity exporters	6 500	4	100	0.4	740	
in Central American - Caribbean	6 500	4	100	0.4	740	35 to 40
(ii) becoming industrialized	148 000	88	100	9	950	
in Middle East (Iran, Irak)	39 550	24	27	2	940	—
in Asia (Hong Kong, Singapore)	6 110	4	4	0.3	1 000	70 to 80
in Latin America	99 500	59	67	6	955	10 to 30
in Mediterranean (Lebanon)	2 800	2	2	0.2	660	20
(iii) oil-producers with small absorption capacity	13 600	8	100	0.8	4 775	

Poor developing countries (Per capita GNP under $220)

1. Countries with small exportable surplus

Countries	Population ('000) 1971	Per cap GNP ($) 1971	Exp. as % of GNP
Ethiopia	25 250	80	11
Madagascar	7 200	140	14
Upper Volta	5 500	70	4
Mali	5 100	70	6
Niger	4 100	100	10
Rwanda	3 800	60	10
Chad	3 700	80	10
Burundi	3 600	60	10
Central African Rep.	1 600	150	14
Lesotho	941	100	—
Botswana	618	100	10
Africa	61 410	87	
Burma	29 600	80	6
Afghanistan	14 600	80	—
Nepal	11 300	90	—
Cambodia	7 700	130	1
Yemen Arab. Rep.	5 900	90	—
Yemen P.D. Rep.	1 500	120	—
Laos	3 030	120	2
Sikkim Bhutan	1 100	80	—
Asia - Middle East	74 730	90	
Haiti	4 300	120	7
Total	140 440	90	

2. Highly populated countries with large domestic market

Countries	Population ('000) 1971	Per cap GNP ($) 1971	Exp. as % of GNP
India	551 123	110	5
Bangladesh	72 400	70	7
Pakistan	62 700	130	5
Indonesia	120 000	100[1]	15
Asia	806 223	106	
Total	806 223	106	

3. Countries with economy dependent on commodity exports

Countries	Population ('000) 1971	Per cap GNP ($) 1971	Exp. as % of GNP
Zaire 20 000	90	30	
Sudan	16 135	120	20
Kenya	11 700	160	27
Tanzania	13 250	110	25
Uganda	10 100	130	21
Cameroon	5 800	200	20
Malawi	4 550	90	22
Guinea	4 080	90	—
Somalia	2 900	70	20
Dahomey	2 800	100	18
Sierra Leone	2 700	200	30
Togo	2 000	150	28
Liberia	1 600	210	50
Mauritania	1 200	170	52
Swaziland	433	190	69
Africa	99 248	123	
Thailand	37 300	210	25
Sri Lanka	12 850	100	17
(South Vietnam)	(18 800)	(230)	
Asia	50 150	182	
Bolivia	5 100	190	24
Total	154 500	144	26.5

[1] 1974.

Developing countries with medium income (Per capita income between \$220 and \$530)

4. Countries with economy dependent on commodity exports

Countries	Population ('000) 1971	Per cap GNP (\$) 1971	Exports as % of GNP
Ghana	9 000	250	23
Mozambique	7 800	280	10
Ivory Coast	5 200	330	34
Angola	5 600	370	25
Zambia	4 250	380	60
Senegal	4 000	250	20
Congo (B)	1 100	270	15
Mauritius	850	280	56
Guinea Bissau	563	250	—
Africa	38 400	290	
Morocco	15 400	260	22
Syria	6 500	290	20
Tunisia	5 200	320	25
Jordan	2 400	260	14
Mediterranean	29 500	280	
Malaysia	11 200	400	41
Papua - New Guinea	2 500	320	15
Fiji - Tonga - Samoa	766	255	40
Asia - Oceania	14 466	380	
Colombia	22 300	370	15
Peru	14 000	480	16
Ecuador	5 300	310	16
Paraguay	2 500	280	14
South America	45 100	390	
Cuba	8 500	510	14
Guatemala	5 400	390	18
Dominican Rep.	4 100	430	18
El Salvador	3 700	320	29
Honduras	2 600	300	29
Nicaragua	2 100	450	24
Guyana	732	390	63
Central America - Caribbean	27 132	420	
Total	154 600	350	22

5. Countries becoming industrialized

Countries	Population ('000) 1971	Per cap GNP (\$) 1971	Exports as % of GNP
Philippines	37 900	240	16
Korea (South)	31 850	290	21
Taiwan	14 900	430	37
Asia	84 650	290	
Egypt	34 080	220	15
Algeria	14 400	530	—
Mediterranean	48 480	310	
Brazil	95 435	460	9
Nigeria	70 000	230[1]	—
Total	298 600	330	

[1] 1974.

Developing countries with high income (Per capita income above $640)

6. Commodity-exporting countries

Countries	Population ('000) 1971	Per cap GNP ($) 1971	Exp. as % of GNP
Jamaica	1 900	720	38
Costa Rica	1 800	590	32
Panama	1 500	820	34
Trinidad & Tobago	1 100	940	71
Barbados	244	670	38
Central America—Caribbean	6 500	740	
Total	6 500	740	

7. Countries becoming industrialized

Countries	Population ('000) 1971	Per cap GNP ($) 1971	Exp. as % of GNP
Iran	29 800	940[1]	—
Irak	9 750	930[1]	—
Middle East	39 550	940	
Hong Kong	4 000	900	71
Singapore	2 110	1 200	83
Asia	6 110	1 000	
Mexico	52 400	700	8
Argentina	23 569	1 230	9
Venezuela	10 600	1 850	30
Chile	1 000	760	15
Uruguay	2 900	750	10
Latin America	99 500	955	
Lebanon	2 800	660	23
Mediterranean	2 800	660	
Total	148 000	950	

8. Oil-producing countries with low absorption capacity

Countries	Population ('000) 1971	Per cap GNP ($) 1971	Exp. as % of GNP
Saudi Arabia	7 500	2 900	
Kuwait	3 200	8 500	
Libya	2 000	5 800	
Gabon	500	1 540	
Arab Emirates	235	10 000	
Qatar	127	10 000	
Total	13 600	4 775	

[1] 1974.