Published under the auspices of the
Centre for Contemporary European Studies, University of Sussex
in association with the Commission of the European Communities
London office

European Studies, 5, 1969

The European Community and the developing countries

The European Community and its member states are a vital focus for developing countries. As a group the Six are the world's largest importers of primary products, and the Community is a rapidly expanding market for these materials. The aid and technical assistance provided by the Community and its member states have an important role to play if the gap between the developing countries in Africa, Asia and Latin America and the rich industrial countries is not to widen. The efforts of the Six so far have made a significant contribution to the attack on world poverty.

Individually and collectively, the Community countries are important aid donors. Apart from Luxembourg, all the member states have independent overseas aid programmes in the form both of special bilateral agreements with recipients and of multilateral channelling of financial and technical assistance via international agencies like the United Nations and the Organization for Economic Co-operation and Development (OECD). All of them contribute to the Community aid programme, focused primarily on Africa. In the last ten years aid from the Community and its member states has increased steadily; measured as a proportion of the donor's national income, aid from the Six is the highest in the world.

The European Economic Community (EEC) was not designed as an international aid organisation. However, it has never been an inward-looking exclusive bloc, ignoring the needs of the developing countries. During the drafting of the Rome Treaty in 1956-1957, the Six sought means of ensuring that the creation of a *European* customs union should not detract from their responsibilities to their dependent territories and less-developed trading partners. The Six were among the first to give practical expression to the notion that an essential part of development aid is the provision of trade outlets for the developing countries' products. In the last decade, Community trade with Africa, Asia and Latin America has increased greatly in value, to the benefit of the latter, with whom the Six are in deficit, as shown in table 1.

Table 1 **Community trade with developing countries, 1958-1967**
(in $ million and per cent increase)

	Imports			Exports			Commercial Balance	
	1958	1967	%	1958	1967	%	1958	1967
Developing countries	6,824	11,521	+ 68	6,125	8,295	+35	−699	−3,226
of which								
AASM [a]	914	1,304	+ 43	712	926	+30	−202	− 378
Other African states	1,521	3,165	+108	1,952	2,055	+ 4	+431	−1,100
Latin America	1,647	2,743	+ 66	1,604	2,052	+27	− 43	− 691
Asia	2,582	4,054	+ 57	1,720	2,856	+66	−862	−1,198

[a] Associated African states and Madagascar.

Source: External Trade of the EEC, 1958-1967, Commission of the European Communities, January 1969.

The Rome Treaty

During the Rome Treaty negotiations, consideration of the Community's potential impact on developing countries was restricted primarily to the dependent territories of the member states. The agreed formula, set out in articles 131-136 of the treaty, set up an association between the Community and the French and Belgian overseas dependencies, Italian Somaliland and Dutch New Guinea. Its aim was "to promote the economic and social development of the countries and territories" and to further the interests and prosperity of the inhabitants. The association established a special preferential trading relationship between the Community and the associates, giving the latter's exports to the Community the same concessions as if they were member states; they granted similar preferences to the Six, with the important proviso that they could retain import duties for revenue purposes or to protect infant industries.

Association: the first convention, 1958-62

A five-year implementing convention attached to the Rome Treaty governed the first five year's operation of the association, and set up a European Development Fund to allocate Community aid to specific projects. Fund aid was additional to the existing nationally financed aid programmes, and there was no reduction in the responsibility of the colonial powers for the well-being of their dependent peoples. The Fund was established as a specialist technical agency, administered by the EEC Commission, to undertake social and economic *infrastructure* investments. These financed projects designed to contribute directly to the welfare of the associated peoples, and to contribute indirectly to their prosperity by providing the necessary infrastructure which enables industrial and agricultural development to take place (see Table 2).

The initial Rome Treaty association helped to foster trade between the associated territories and the EEC as a whole. Even more important, the Fund financed a vast number of projects. Among other things it built 30 secondary schools (with places for 8,000 pupils), 350 hospitals, clinics and bush dispensaries with a total of about 8,500 beds, and 166 technical training centres; it financed the construction of 3,700 miles of roads (over 1,700 miles of them tarred), 240 miles of railway, 18 harbours, over 2,600 village wells and springs, and 54 dams for irrigation projects.

The emancipation of Africa from colonial rule in the late 1950s and early 1960s necessitated a revision of the original association relationship. When the first Convention ended nineteen independent states had taken the place of French, Belgian and Italian dependencies in Africa. Only Guinea chose to end her association relationship; the remaining eighteen [1] wished to maintain their aid and trade links within a revised relationship recognising their new-found sovereignty. The bulk of the Eighteen's trade was with the Community, and they wished to keep their preferential access to the markets of the Six. They also desired a continuation of the European Development Fund with new and expanded capital. One of the great advantages of Community aid was that it could concentrate on fundamental needs, without being influenced by the elements which sometimes play an excessive part in determining national aid programmes. For example, village wells are neither prestigious nor profitable, but they have made an essential contribution to improving living conditions in underdeveloped bush areas of Africa. The European Development Fund has been able to meet this sort of need.

The Yaoundé Convention, 1963

The association was renewed by a second five-year convention signed in Yaoundé, capital of Cameroon, on July 20, 1963. The signatories were the Six of the Community and the eighteen African states.

Trade

The Yaoundé Convention closely followed its predecessor as far as trade was concerned; each Community country continued to remove barriers to imports of goods from the associated countries in exactly the same way as it did for goods from other Community countries. In return, the Eighteen undertook to reduce by 15 per cent annually their tariffs on imports from the Community and to abolish quota restrictions on them; however, they were still able to retain tariffs and quotas for revenue purposes or to protect infant industries. Meanwhile the Community had abolished tariffs on a number of tropical products of particular interest to the Eighteen. Freedom of establishment for firms was also retained, but with the proviso that Community countries must grant similar concessions to the associates.

Aid

The aid provisions of the new Convention were infinitely more supple than the old. The total aid made available for the following five years—from May 1964 to May 1969—increased to $800 million, of which $730 million was for the associated countries and the remaining $70 million for the few territories which still remained dependent. The forms of aid were made much more flexible: in addition to the outright grants which continued to form the bulk ($680 million) of the aid granted, the Fund was empowered to make special loans up to a total of $50 million at very low interest rates, and the European Investment Bank to make normal loans up to a total of $70 million. The Fund was empowered to use its outright grants to lower the interest rates on Investment Bank loans.

In addition to the increase in the amount of joint Community aid, purposes for which the aid could be used were substantially extended. Under the first Association Convention, the Community could finance only basic economic and social projects in the associated countries, and occasionally—but stretching the rules—technical assistance operations. The Yaoundé Convention permitted the financing not only of basic infrastructure projects, and of production projects of value to the whole community (e.g., irrigation, soil preservation), but also of new industries (e.g., for processing agricultural products). It allowed EDF funds to be used to aid farmers by mitigating the effect on them of fluctuations in world prices: the Fund granted credits to stabilization funds in the associated countries when world markets were depressed and was repaid when world prices rose above the average. The Yaoundé Convention also allotted $230 million to help producers in the associated countries to adapt their production step by step to the requirements of world markets, and to diversify their crop output, thereby easing their dependence on single crops. Two examples of projects financed by Fund loans are the major survey conducted for a slaughterhouse and cold store at Bangui in the Central African Republic, and the construction of an electricity supply station for the Garoua textile mill in Cameroon.

Yaoundé also placed a new stress on technical assistance, allowing the Community to finance regional surveys, technical and economic surveys—of mineral resources, for instance—and to provide experts, funds for training, scholarships, and information and reference material. This enabled much better research and planning to be undertaken before development projects were drawn up and submitted.

The Community's powers under the second Fund to help stabilize prices were particularly important as in most of the associated countries farmers' incomes fluctuate greatly, depending on the harvest and the world level of prices. A bad year can have crippling effects, both on farmers and on the economy as a whole, especially when that economy depends largely on a single cash crop grown for export. Moreover, it was essential to provide a transitional replacement for the French price subsidies which were now to be phased out.

The Fund also has a small emergency budget enabling it to react promptly in the event of a major natural disaster in any of the associated states.

No other national or international body concerned with development aid provides such comprehensive and flexible means of action. To date the European Development Fund has functioned fairly well and largely to the satisfaction of the Eighteen; it is the source of one-fifth of the total foreign assistance which they receive as a group. Some random examples of Fund operations in recent years are $851,000 for asphalt roads in Mali; $4 million for coconut plantations in Malagasy; and $1 million for a campaign against crop-destroying rats in Upper Volta. In addition, many more schools, hospitals and irrigation projects have been undertaken.

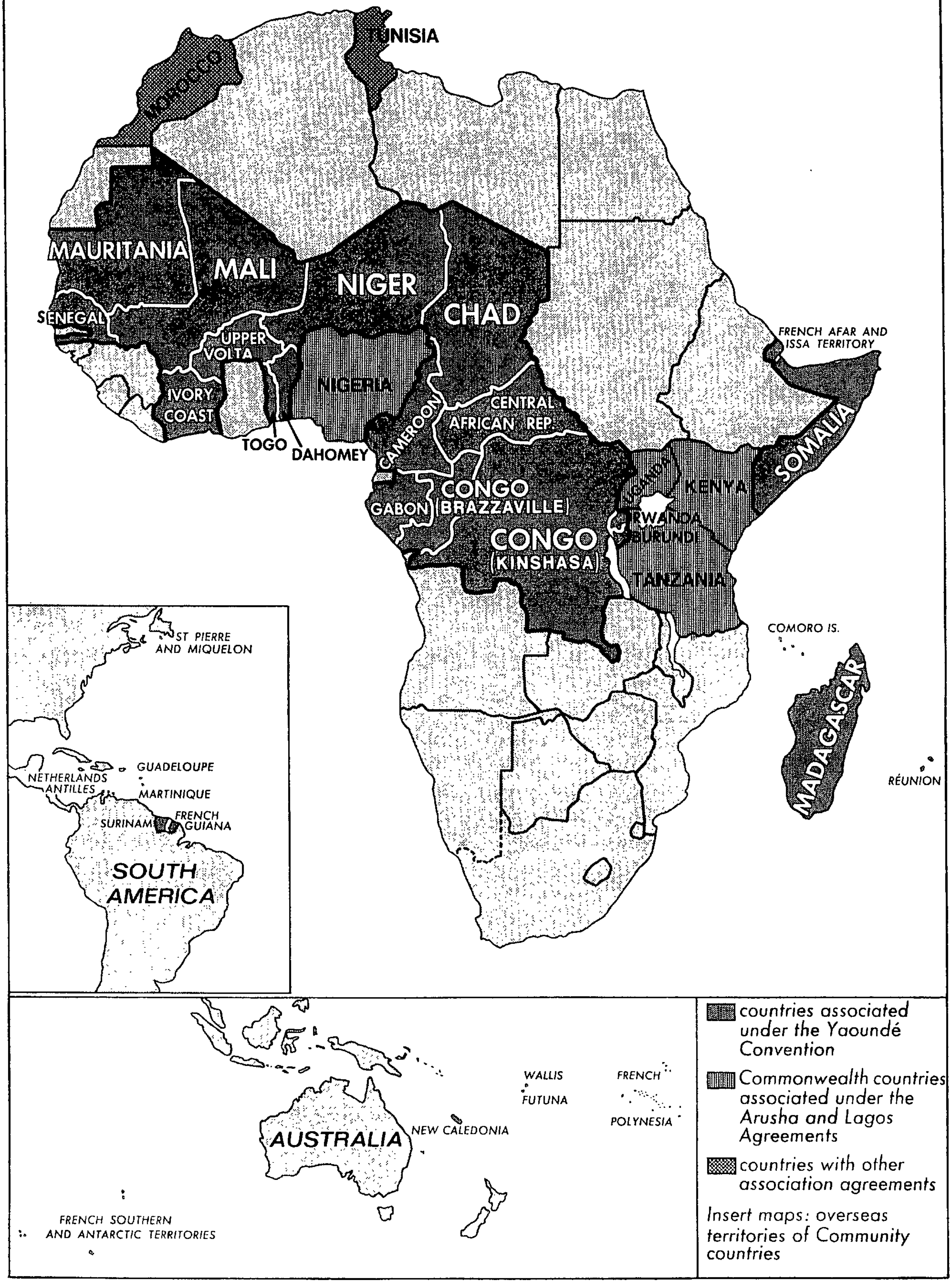
The institutions of association

The Yaoundé Convention set up an entirely new set of joint institutions based on equality for the Eighteen at every level. These joint institutions have a say in all problems relating to the Association, whether they concern trade, financial and technical co-operation, or even the aid provided by the Community (though on aid the Community makes the final decision). The institutions are:

— The *Council of Association*, consisting of the Common Market Council of Ministers, the Commission, and one representative each from the associated countries, which meets once a year to survey the broad working of the Convention. The office of chairman of the Council alternates between

[1] The eighteen states are: Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Congo (Kinshasa), Dahomey, Gabon, Ivory Coast, Malagasy, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo and Upper Volta.

THE EEC AND THE DEVELOPING COUNTRIES



a member of the Common Market Council of Ministers and a member of the Government of one of the associated countries. Detailed day-to-day administration of the Convention is carried out by the Association Committee, made up of one representative from each of the Community countries and the associated countries, and is controlled directly by the Council of Association. The Committee has two joint secretaries—one from the Eighteen and one from the Community.

— The *Parliamentary Conference*, consisting of members of the European Parliament and parliamentarians from the associated countries, which meets once a year.

— The *Court of Arbitration*, consisting of a President appointed by the Council of Association and two nominees each of the Community and the associated countries; the Court settles any disputes that may arise in interpreting or applying the Convention, should the Council fail to agree.

Yaoundé 1969

The first Yaoundé Convention ended in mid-1969. Despite a lack of Dutch and German enthusiasm for a preferential regional arrangement involving mainly African countries with which they have no real links, a new Convention was initialled on June 28. It ensured the renewal of Community development aid, providing for total assistance of $1,000 million, of which $810 million will be in the form of outright grants, $100 million in normal loans from the European Investment Bank, and $90 million in special low-interest loans.

The 1969 Convention, which runs till January 1975, laid a wholly new stress on African industrialization but abolished the aids to agricultural production and price stabilization which formed a substantial part of the 1963 Convention. In compensation, it increased to $65 million ($80 million after three years if this proves insufficient) the sum available to offset any rapid decline in the associates' export income in the event of a sharp fall in commodity prices. To encourage African firms, the Convention gives them a 10-15 per cent price preference over European firms in the awarding of certain development contracts by the new Fund. Finally, it makes aid possibilities even wider by allowing the European Investment Bank to invest in African firms.

Aid to other countries

1. Commonwealth African countries

The Community as such does not provide financial aid outside the context of the Eighteen, although of course the six member states individually provide massive sums. However, a developing country's ability to gain preferential treatment for its exports in a buoyant market makes a major contribution to its development potential. In the light of this consideration, several African countries have sought special access to the Community for key products and some have succeeded in negotiating association agreements with the EEC. These agreements are separate from the Yaoundé Convention and concluded in accordance with article 238 of the Rome treaty. This form of association creates certain preferential trading arrangements for specific products and involves "reciprocal rights and obligations, joint actions and special procedures." So far, the EEC has signed two association agreements with African States—the **Lagos Agreement** of July 1966 with Nigeria, and the **Arusha Agreement** of July 1968 with Kenya, Uganda and Tanzania. Neither agreement contains provision for EEC financial aid, although the four countries involved receive aid direct from some of the Community governments. Neither agreement has come into effect as yet and both in fact expired simultaneously with the Yaoundé Convention in mid-1969. Because of problems arising from the Nigerian war, Nigeria had not, at the time of writing, requested a renewal or re-negotiation of the Lagos Agreement.

The Arusha Agreement, however, following a request from the three East African states was renewed in July 1969 until January 1975. The renewed agreement provided for substantial liberalization of Community imports of goods from the three countries, and duty-free import quotas for coffee, cloves, and canned pineapple. It did not, however, meet a request from the three for technical aid, as the Commission had not received an additional mandate from the Council to widen its brief; this question was due to be the subject of further negotiations.

2. Tunisia and Morocco

In March 1969 association agreements were also signed with Tunisia and Morocco. Both agreements are for five years and are limited to trade preferences; they do not include multilateral financial aid from the Community.

These agreements are important in demonstrating the Community's willingness to make special concessions for some developing countries in the absence of a world-wide system of trade preferences operated by the industrialised, rich, "have" states in favour of the products of the "have-nots." Nevertheless, it could be argued that such association agreements contravene the rules of the General Agreement of Tariffs and Trade (GATT), by introducing an element of preference or discrimination, providing artificial advantages for some developing countries over their competitors. However, in law at least, the provision for special institutional frameworks regulating their working differentiates these association agreements from simple discriminatory trade agreements, and the Eighteen have made it quite clear in the negotiations for renewal of the Yaoundé Convention that they set great store by he political aspects of association with all their implications of equality.

Table 2

Contributions to the European Development Fund
in $ million (units of account)

	Rome Treaty Convention	Yaoundé Convention '63	Yaoundé Convention '69
Belgium	70	69	80
Germany	200	246.5	298.5
France	200	246.5	298.5
Italy	40	100	140.6
Luxembourg	1.25	2	2.4
Netherlands	70	66	80
EDF	581.25	730	900
EIB [a]	—	70	100
Total	581.25	800	1,000

[a] European Investment Bank.

Allocations by the EDF — 1958/June 1968
in $ million (units of account)

	First EDF		Second EDF	
Economic infrastructure	290.7	50 %	205.4	38 %
Modernization of agriculture	115.9	20 %	254.1	47 %
Social development	156.6	27 %	59.8	11 %
Miscellaneous	18.1	3 %	20.6	4 %
Total	581.25	100 %	540.0	100 %

Aid from the member states

The total flow of aid (official aid plus private resources) from the Six to less-developed countries in 1968 reached $4,092 million, which compared with $5,676 million disbursed by the US and $845 million by Great Britain.

It is worth noting, *en passant*, that Japan is rapidly becoming a major supplier of aid, providing in 1968 a total flow of $1,049 million, of which $507 million was government aid. Also of interest is the fact that, of the $78 billion received by developing countries in the eight years 1960-1967, $70 billion came directly from the 16 countries belonging to the DAC (OECD's Development Assistance Committee [1]); according to OECD estimates some $3 billion was disbursed directly by the Communist countries; and a further $5 billion was channeled through various multilateral agencies (e.g., the United Nations, EDF).

Total "official" (governmental) aid from the EEC and from the six member states to developing countries (including the EDF contributions) amounted to $1,827 million in 1968, while the United States provided $3,605 million and Great Britain $428 million. The Community's official aid has been increasing at a rate of about 2.3 per cent a year—faster than that of any other aid donors. Nevertheless, the Six's national incomes have increased at a faster rate over the same period, and so aid as a proportion of their national incomes has declined. However, this record is relatively good if compared with the other DAC countries.

The United Nations Conference on Trade and Development (UNCTAD) in 1964 set a target of 1 per cent of the national incomes of all "have" states to be devoted to development assistance for the "have-nots." This figure was to include private assistance as well as official governmental aid, and on that basis, four Community countries reached or exceeded this figure in 1967: France—1.65 per cent, Germany—1.62 per cent, Netherlands—1.35 per cent, and Belgium—1.45 per cent. The equivalent figures were 1.06 per cent for the United Kingdom, 0.79 per cent for the United States, and 0.97 per cent for all Development Assistance Committee countries.

The Community's collective aid programmes have not been co-ordinated with the independent overseas development programmes of the member states. The Six as a group, moreover, have made no concerted efforts to harmonize their individual projects. Consequently, there is no common aid policy, coherent philosophy of development assistance, or identifiable trend to suggest that they are working together in a European Community context. Foreign policy, in this case its overseas aid component, remains the jealous preserve of each government.

Whereas European Community aid as such is focussed primarily in Africa, the individual member states' development assistance programmes spread across the Middle East, Africa, Asia and Latin America. The German Government's programme is the most diversified geographically, the main recipients being in the Middle East, Southern Asia, and Africa. France and Belgium tend to concentrate their aid programmes on areas where they have traditionally close links, although in recent years the French Government has stepped up its assistance to Latin America. Italy has her own domestic development problems, and does not provide aid on the same scale as her Community partners; most of her governmental aid goes to Africa and Southern Asia.

[1] The DAC was set up to expand the resources allocated by its member countries to developing countries and to make them more effective. Its members are: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom, United States.

Table 3
Total Aid to less-developed countries 1968

	Total, flow, net (official and private) $ millions	Official flows, net $ millions	Outright grants and grant element of loans as % of total official aid	Total flow, as % of national income
Belgium	243	93	97	1.46
France	1,483	855	80	1.65
Germany	1,635	595	63	1.62
Italy	505	150	31	0.88
Netherlands	276	134	84	1.35
The Six, total	4,092	1,827	—	—
United Kingdom	845	428	82	1.06
USA	5,676	3,605	75	0.79

Conclusion

The Eighteen receive more foreign aid per head of population than all other aid-receiving countries. The Community's member states as a group allot a higher proportion of their national incomes to foreign assistance programmes than any other "have" states. Together, these two points would seem to indicate that the Community's record is good.

But is it good enough? The creation of the customs union and the establishment of the common market have generated an intense degree of economic activity within the Community, and between 1958 and 1967 the gross national product per head increased by over 90 per cent. This was one reason why the gap in living standards and wealth between the Community and the developing countries, and indeed between the "haves" and the "have nots" in general, became wider. Individually and collectively, Community countries can make only a partial contribution to this problem. *If* a solution exists and *if* a formula for producing accelerated economic development for the "have nots" can be found, then it will surely require co-operation on a world-wide scale. Perhaps, when the situation is ripe for a united effort by the rich nations on world problems of underdevelopment, the European Community's experience in multilateral regional aid can make a unique contribution towards solving this urgent problem.

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