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Communication from the Commission to the Council and Parliament

DEVELOPMENT COOPERATION POLICY IN THE RUN-UP TO 2000

(The Community's relations with the developing countries viewed in the context of political union)

The consequences of the Maastricht Treaty

CONTENTS

INTRODUCTION

As a result of the work of the Intergovernmental conference on political union, cooperation policy has now taken its place alongside other Community policies.

This decision marks both an end and a beginning.

An end because what the Commission has already been doing for almost thirty years is now enshrined in the Treaty. Cooperation policy began fairly modestly with the first EDF in 1958. Annual commitments have gradually risen from ECU 100 million to more than ECU 3.5 billion. Operational instruments have become increasingly complex and comprehensive (Lomé, Mediterranean protocols, cooperation with Asian and Latin American developing countries, sundry budget headings). Other cooperation instruments such as trade policy and scientific or technical cooperation have been used more systematically.

A beginning, above all, because in the prevailing situation there are various reasons for reassessing and rethinking the Community's development policy:

- the distribution of income worldwide has become even more unequal in relative terms in the last few years. The situation in the developing countries is far from rosy and in some of them is marked by a drop in growth rates, increasing poverty and a widening gap between those countries which take off and those which stagnate or even regress;

- for a large group of developing countries (the less developed countries) development efforts have ended in complete failure. For these countries international development aid has on the whole been ineffective and has produced meagre results in relation to the large amount of resources mobilized;

- the political upheavals in the international arena following the collapse of the Eastern bloc have called into question the traditional support enjoyed by the developing countries and are in turn bringing about deep changes in the political make-up of these countries;

- the thrust of the developing countries' domestic policies, which are directed at political level towards greater democracy and at economic level towards greater liberalization, play a vital role in development since external aid is effective only when it backs sound development strategy;

- the emergence of new forms of interdependence between industrialized and developing countries - in addition to trade, investment and debt there is the political dimension (tensions and wars between Third World countries and their internal political instability affect the industrialized countries) and aspects connected with the environment and population movements (migration, AIDS, drugs). It is widely acknowledged that the developed world pays a price for the South's non-development and that the North's ill-conceived development can obstruct the South's sustainable development.

- the headway made in European integration - towards the single market and economic, monetary and political union - is radically altering the commercial, financial and monetary make-up of the international economic system and means that the Community already plays, and will do so even more in the future, a leading role in world affairs.

Cooperation policy not only has its own particular traits and driving force, it is also a vital component of foreign policy. Although each comes under different sections in the new European Union Treaties, they will need to be developed in parallel as progress is made towards political union.

So far the Member States have done a great deal to assist the developing countries. But although their approach has generally converged their efforts have remained dissipated and therefore less effective.

An alternative approach is needed to tackle all these aspects and the dissipation of the Member States' development aid. One possible way of doing this is gradually to align and dovetail the Member States' development cooperation policies at Community level.

As in other areas of Community action the key lies in the proper application of the principle of subsidiarity. Article 3B of the Political Union Treaty states that "... the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community".

It therefore seems that the Member States' development cooperation policies should brought together at Community level for two reasons:

(i) to cope better with the challenges and external factors which have been generated by the new forms of interdependence resulting from the non-development of the South and which could not be tackled by the Member States acting in the same fragmented way as in the past. In this field the Community development cooperation policy would link up with other Community policies (such as environment and research) which are designed to deal with these global issues;

(ii) to contribute better, by means of coordinated, complementary, synergetic and therefore more effective action, to the developing countries' development efforts. With this united approach Community policy would make a decisive contribution to increasing the effectiveness of overall development aid.

The Treaty on European Union concluded in Maastricht has provided a response and created a framework for such coordinated action.

To make the change from the current gamut of disparate efforts to a united approach and action means going back to discussing the basics - what lessons can be learnt from past experience? What are the common priorities? What objectives could reasonably be attained? What are the most suitable means of action? This first requires a general exchange of ideas before moving on, on a firmer footing, to identifying common action - such is the aim of this paper.

Its other purpose is to highlight the contribution which the Community could make to the collective development aid effort by conducting a Community development cooperation policy with clear-cut strategic targets capable of providing an effective response to the developing countries' current difficulties.

There are, however, several major questions which have been left pending or unanswered in this paper. It is not just because of the scale and complexity of the issues at stake. It was done deliberately: instead of providing a ready-made list of answers and programmes we hope to spark off discussions and ideas. Our past experience of development has shown us that there is no writing on the wall and that the situations and problems facing us are more unsettled and difficult than we imagined even a few years ago.

As a result we need to think long and hard about the future, a task which will go beyond the confines of this document.

To sum up, the aims of the document are as follows:

- to take stock of the last thirty years of development and overall development aid, in particular that provided by the Community and its Member States;
- to review the changes that have occurred worldwide such as the new challenges resulting from the global management of the international economic and ecological system and its implications for the developing countries;
- to justify, in the light of the development track record and the new demands created by new forms of interdependence and the response provided by the Treaty on European Union, the need to press ahead with aligning the Member States' and the Community's development cooperation policies;
- to establish the basis for a Community development cooperation policy which can serve as a rallying point for the Member States' bilateral policies;
- to propose a methodology for defining and gradually implementing a common approach to development cooperation based on the most advantageous allocation of the roles to be played by the Community and its Member States.

I. ASSESSMENT AND LESSONS OF THREE DECADES OF DEVELOPMENT

A. The situation in the developing countries

1. In the last few years the distribution of income worldwide has become even more unequal. There has been a sharp contrast in trends in the developing countries - a group of countries in Asia has achieved rapid growth, which even speeded up towards the end of the period, despite a less favourable international climate. By contrast, there has been a continuous, marked decline in growth in Africa. Because of the slow-down in growth combined with continuing population pressure, *per capita* incomes there have fallen sharply in the last fifteen years. In Latin America, where the average level is much higher, decline has also set in following the debt crisis. In the two latter regions investment has fallen even more than incomes, unlike in Asia. Africa is, however, the only region where agricultural production has not kept pace with population increase.

2. The "demographic transition" of the developing countries to lower fertility rates is taking a while to become evident. This is particularly true in Sub-Saharan Africa and in the Maghreb countries. The present world population (5.5 billion) could reach 8.5 billion in 2025, and 10 billion in 2050.

This rapid growth in population is obviously exerting considerable pressure on resources, in particular those available for "human development" (basic health care, primary education, etc.).

2a. Over the long term, admittedly, all the social indicators have shown a marked improvement but the poor countries have not caught up and these indicators have actually worsened in Africa and Latin America in the last ten years. The proportion of poor people has fallen, but not their absolute number, at least in South Asia and Africa. The distribution of income, which is more even in Asia, is extremely uneven in Latin America.

3. The international climate has had an adverse effect in the last few years: slow-down in growth in the industrialized countries, relative drop in the price of commodities after the end of the inflation period, debt crisis and reversal of net financial flows after ten years of too easy loans. Very generally in Latin America, but also in Africa, availability of foreign exchange has become the main brake on growth.

4. Most of the Asian countries have escaped these difficulties by successfully redirecting their exports towards manufactures (over 70% of the total at the end of the period). The same shift is being made in Latin America whereas it has scarcely begun in Africa. The Mediterranean countries are experiencing widely differing economic situations; some are starting to attract investment to a significant degree and others are having difficulties in applying economic reforms in full.

5. Development policies are also responsible for these differences. At the outset they were virtually uniformly directed towards industrialization based on the domestic market and broadly dependent on the state and its protection policy. They were then gradually diversified with either agriculture being given increasing priority, or the economy being opened up to facilitate exports of manufactured goods.

6. Following the 1982 financial crisis a growing number of countries, at the same time as having to cut domestic demand, embarked on a process of radical reforms to restore macroeconomic order (public finances, monetary policy, exchange rates), reduce administrative controls and the role of public sector undertakings, liberalize the price system, particularly for agricultural products, improve public sector management and open up economies. The backdrop of depression against which these reforms were undertaken, political opposition, social costs and the difficulty in changing attitudes and behaviour quickly mean that these policies have not yet produced the hoped-for results.

6a. New environmental challenges on a global scale (greenhouse effect and climate changes, deterioration of the ozone layer, movement and disposal of toxic waste) have pointed up the need to take greater account of environmental concerns in development strategies. The developing countries have to find solutions to the growing phenomena of desertification, soil erosion, declining water resources and the ecological consequences of the exploitation of tropical forests, particularly from the point of view of the protection of biodiversity.

B. <u>The effectiveness of international aid</u>

7. The overall volume of Official Development Aid (ODA) has more or less kept pace with real income trends in the donor countries, at least with those in the Development Assistance Committee (DAC) which provide most: it accounts for the same proportion of GNP in 1988 as in 1970 (0.35%). In absolute value and in real terms, overall ODA increased by 2.8% per year over that period. This figure must be set against a population growth of 2.1% per annum in the developing countries. ODA, however, accounts for only part of the resources made available to the developing countries. In addition there are public or private loans and direct investment by the private sector.

8. The aid provided by the Community and its Member States accounts for a growing share of total world ODA (some 40% in 1988-89). Community aid remains firmly focused on the ACP States and in particular sub-Saharan Africa. With the Member States the Community contributes 56% of total aid to this region. This should be considered in terms of the importance of aid for the region, which represented more than 10% of its GNP during the period 1988-89 and financed over half its investment.

9. However, in terms of overall financial flows, official contributions barely offset the current servicing costs of past private loans. Regional differences here are very marked - Africa south of the Sahara and South and East Asia enjoy positive net flows whereas Latin America, quantitatively the most indebted, has negative flows.

10. An objective evaluation of aid is difficult. On the plus side there is for example the progress achieved in the eradication of major epidemics, the development of infrastructure, "productivity leaps" such as the green revolution in South Asia or the development of agriculture based on cotton in the Sudanese belt of Africa and so on. It is none the less clear that if overall results are compared with the amount of financing committed the general impression which emerges is of mediocre results.

11. This can be put down to a number of factors. On the part of the developing countries' governments the lack of a clearly defined development strategy, administrative weakness and the nature of the established régimes have often been the cause of ineffectiveness. In addition, these governments, rather than coordinating donors' aid, have exploited competition between them in order to reap the short-term benefits.

12. On the part of the international community there is no denying the failure of development models conceived outside the developing countries, for which ODA has been an active means of promotion, and also the often diverging interests of donors. The East-West conflict has been particularly harmful in that international cooperation has been dominated at least as much by a concern to keep countries in one or other camp as by a concern to contribute to their development.

13. The same goes for the aid provided by the Community and its Member States. From a Community point of view, collaboration between the European institutions and the Member States on the design, monitoring and thrust of their operations, which is increasingly seen as a sine qua non of effectiveness, has not been close enough to give Community ODA the image of a concerted, consistent and efficient policy. A dissipation of efforts has been more the rule than the coordination of policies.

II. THE NEW STAKES IN NORTH-SOUTH RELATIONS

A. The changes in the world political arena

14. Because of the collapse of the Eastern bloc and the end of the cold war, the developing countries are no longer of geo-strategic interest to opposing factions. The unconditional support which they could expect from either camp no longer exists. The contribution of ODA donors will now be increasingly subject to criteria for assessing the efficiency of the aid granted. This requirement will become even more stringent as available resources become scarcer.

15. The ruling elites of the developing countries have been undermined by these political upheavals and also by the pressure exerted by the people following the disappearance of the regimes which had hitherto acted as guardians and protectors. Here and there, with varying degrees of speed and ease, democratic systems are emerging which are in a better position to accommodate the aspirations of their people and manage the economy for the common good. The conditions are thus gradually emerging in the developing countries for more effective cooperation in a renewed international framework.

B. New forms of interdependence

16. The traditional forms of interdependence which have for a long time prevailed in North-South relations have changed considerably or become weaker in the last few years. Thus apart from losing their role as "relay stations" in the cold war context, the countries of the South now no longer play such a strategic role as in the past in supplying the countries of the North with commodities.

17. North-South interdependence has therefore taken on other guises in which it has been particularly noticeable in the last few years, making its importance to the international community all the more visible. Competition in almost all the vital sectors for the economic expansion of the countries of both the North and the South now has a worldwide structural framework. Similarly, other dimensions of North-South interdependence have emerged which will assume increasing importance in the next decades, for example, population and environment issues, drugs and major endemic diseases such as AIDS. Without proper management, the new forms of interdependence between North and South could be seen by developed countries increasingly in terms of risks, and even be reduced to matters of security, instead of being an opportunity for greater solidarity.

18. It is therefore important that partners in both the North and the South should become increasingly aware that the North has to pay the cost of the South's under-development and that the economic models obtaining in the North weigh heavily on the South and diminish their prospects of sustainable development.

C. <u>The growing integration of the Community</u>

19. By completing the internal market and creating economic and monetary union, the Community, which is already the developing countries' main trading partner, is significantly changing the structure of international economic relations, forcing its partners into major adjustments and enjoying growing influence in the world economic arena and in particular in its relations with the developing countries.

20. At institutional level, Title XVII of the Maastricht Treaty enshrines development cooperation as a Community policy which supplements its Member States' development policy. The Treaty defines the objectives (Article 130u) and the methods (Article 130v and Article 130x). The Community therefore has a framework and guidelines for reviewing and revamping its present cooperation policy, taking into account the lessons learnt from the past, the developing countries' new international and domestic situation and the new forms of interdependence.

III. <u>THE NEED FOR AN INTENSIFIED COMMUNITY DEVELOPMENT COOPERATION POLICY</u>

A. <u>The shortcomings of the present situation</u>

21. The main features of the present situation are the disperion of the Member States' and the Community's efforts and the existence of three major handicaps affecting the implementation of a truly coordinated policy: the "coordination shortfall" between national and Community development cooperation policies; the "linkage or cohesion shortfall" between cooperation policies and other Community policies or other aspects of the Community integration process; lastly the fact that the Community does not speak with a single voice and does not provide the necessary impetus in international forums or <u>vis-à-vis</u> other suppliers of funds.

22. This situation is prejudicial first of all to the developing countries: they do not benefit from the considerable impact which a coordinated policy on the part of the Community and its Member States could have and they are often tempted to play on internal rivalries in order to derive immediate benefit. In the face of other international partners, the developing countries cannot always rely on the Community to act firmly and unanimously.

23. This situation is also prejudicial to the Member States: the failure to coordinate, speak with a single voice and take initiatives maintains rivalries within the Community, in some cases to the detriment of the Member States' own interests, and weakens their positions <u>vis-à-vis</u> their immediate competitors.

24. The situation is, lastly, prejudicial to the Community as such: the failure to achieve linkage and unanimity of expression and to provide an impetus does not help recognition of its identity on the world stage.

B. The consequences of the Maastricht Treaty

25. Over and above the definition of the objectives of Community policy, the Treaty urges that account be taken of these objectives "in the policies that it [the Community] implements which are likely to affect developing countries" (Article 130v). An explicit recommendation is therefore made to the effect that the lack of linkage should be remedied.

26. It is stated in Article 130x(1) that "the Community and the Member States shall coordinate their policies on development cooperation and shall consult each other on their aid programmes, including in international organizations and during international conferences. They may undertake joint action. Member States shall contribute if necessary to the implementation of Community aid programmes." This provision concerns the lack of coordination.

27. This same Article 130x (text above) calls on the Community and its Member States to step up their coordination within international forums, and so react to the failure to speak with one voice and provide impetus.

C. The comparative advantages

28. The powers attributed to the Community and the consequences of economic and monetary union show that new forms of North-South interdependence (trade, environment, population, drugs and AIDS) could not be dealt with effectively by each Member State at bilateral level. Some of these subjects by their very nature go beyond the national context (environment), in others the powers already devolved on the Community mean that they come within its sphere of competence (trade) and in yet other cases the consequences of European integration will of necessity entail coordination (e.g. free movement of persons and immigration policy, to which the coopèràtion policy can make a contribution), or more simply the greater impact and coordination resulting from the dovetailing of the policies and resources of the Community and its Member States would make them more effective. Thought should be given to proper application of the principle of subsidiarity to each of these subjects.

D. The forthcoming deadlines

29. The first Financial Protocol under the fourth Lomé Convention covers the period 1990-94. The guidelines laid down by the Council for Latin America and Asia will expire in 1995. The Mediterranean protocols expire in 1996. From 1994 to 1996, the Community will therefore have to review, to an extent it will have to define, its relations with all the developing countries. Preparations should be made for these deadlines by defining a coordinated framework for the development cooperation policy.

IV. THE BASIS FOR A COMMUNITY DEVELOPMENT POLICY

A. The basic principles

30. Like any other Community policy, the cooperation policy will have to be based on the fundamental values which underpin the Community's very existence: the promotion of world peace and the settlement of conflict through dialogue, the development and consolidation of democracy and the constitutional state, and the observance of human rights and the fundamental freedoms. These values are set out in Article 130u of Title XVII of the Maastricht Treaty.

31. With regard to development cooperation policy, as solidarity is one of *the values* forming the cornerstone of the Community, it would be inconceivable for it not to be exercised as effectively outside as inside the Community, with only lip service being paid to it beyond the Community's frontiers.

32. It should not, however, be forgotten when promoting these humanistic values that the development cooperation policy forms part of the more general context of the Community's external relations. This policy contributes to the protection of the Community's interests by taking into account the mutual interest of the parties concerned. This consideration comes into play in the granting of trade facilities and economic cooperation.

33. Lastly, a Community development cooperation policy must help to enhance the Community's presence on the world stage, thereby furthering the recognition of the Community's identity by other countries and within international organizations.

B. The objectives

34. Within the limits of its resources, the development cooperation policy will endeavour to encourage the consolidation of democracy in the developing countries, within the framework of political stability. It will also pursue the objectives indicated in Article 130u(1) of the Maastricht Treaty, namely:

- sustainable economic and social development of the developing countries, and more especially of the least advanced;

- the gradual, smooth integration of the developing countries into the world economy;

- the campaign against poverty in the developing countries.

35. The consolidation of democracy in the developing countries: reform of the state and the political system.

- While democratization remains the key word, no real process can be initiated on a lasting basis without an economic fabric: it is the creation of this fabric which should be sought through active support for any operation which places responsibility on the shoulders of the recipients by involving them directly in the management of the aid (development through participation).

- The revision of the political structures must go hand in hand with far-reaching reform of the state's administrative structures and resources, to which many different operations can contribute (review of the state's tasks, so that it concentrates on its essential functions, decentralization of the decision-making and administrative machinery, and an ongoing effort to train and motivate civil servants, etc.).

- At the same time, support for the private sector and decentralized cooperation will contribute towards a stronger economic fabric.

36. Sustainable economic and social development: the prime objective will to be rebuild the economic foundations for growth, while ensuring that growth takes a form compatible with environmental requirements, by

- restoring the major macroeconomic balances, through a stabilization phase the length and cost, particularly social cost, of which have often been underestimated;

- then a further-reaching operation to restructure the economic fabric, the main component of which is the liberalization of economic activities, which must be achieved in a coordinated way at domestic level. Although the state is called upon in this way to drop its role of direct investor, it must not neglect its role in creating the physical and regulatory environment which business needs in order to invest;

- constant attention to the long-term conditions required for sustainable development: policies on family planning and education so that population growth can be restrained, compatibility of economic development with the rational use of natural resources in keeping with the major environmental balances, and the development of human resources. The role of long-term programming should be strengthened accordingly.

37. Integration of the developing countries in the world economy

One of the essential objectives of the structural adjustment policies implemented by the developing countries is to make them an integral part of the world economy, participating in expanding activity and trade and in the attendant economic and technical progress. Foreign trade, which is the main source of external financing for most developing countries, is of crucial importance to development. Access to the industrialized countries' markets is consequently an essential prerequisite for these countries' development.

In order for the developed countries' markets to become more open the following is called for:

- greater competitiveness on the part of the exporting countries, otherwise the improved market access will have no effect: this is why an appropriate institutional and regulatory framework should be established, with more transfers of technology and intensified industrial cooperation;

- the Community should give thought to how it should itself reorganize in order to open up more to products from the developing countries;

- account should be taken of the fact that the developing countries will benefit very unevenly from the opening-up of the markets, owing to their different degrees of competitiveness; some countries may even lose out if they are not helped along. The transition from the national to the regional dimension may for many developing countries be the first stage in the widening of their economic area. The Community should, on the basis of its own experience, continue and step up the initiatives it has already taken in renewing its cooperation agreements.

38. The campaign against poverty

A return to growth, the establishment of viable economic structures and the ironing-out of inequalities are the three essential components of any strategy to reduce poverty, which now affects one-third of humanity.

The reforms advocated can bear fruit only gradually, in the long term. Development cooperation policy must support targeted operations to relieve certain forms of poverty and to offset the social costs resulting from reform and economic restructuring policies. Priority must be given to all the operations which contribute to human development, in particular basic health care and education schemes.

V. FOMULATION OF COMMUNITY DEVELOPMENT POLICY

A. Basic principles

39. Article 130u of the Treaty of Maastricht lays down that Community policy shall be "complementary to the policies pursued by the Member States". There is therefore no question of simply concentrating at Community level all the means currently deployed by the Community and its Member States. On the contrary, the principle of subsidiarity must govern the analysis undertaken to formulate Community policy and the choice of the degree to which Member States' bilateral policies are integrated into the coordinated policy.

The degree of integration chosen may vary in line with the need to make good the three shortfalls discussed earlier (see point 21).

This analysis will be supplemented by a geographical weighting since differences among developing countries and the diversity of the Community's interests mean that each case will require a response tailored to its particular requirements.

B. Different levels of policy-making

A common comprehensive approach to development problems transcends the confines of development cooperation policy in the strict sense and should be seen by the Community and its Member States as a way of making good the three shortfalls mentioned earlier regarding coordination, policy linkage and the voicing of policy.

40. In its own sphere of competence the Community needs to improve the linkage between development policy and the common policies (e.g. the common agricultural policy, the common fisheries policy and the common commercial policy), taking full account of their beneficial and/or negative implications for the developing countries.

By the same token, development cooperation policy must be formulated and implemented in such a way as to further the objectives of other Community policies (environment, security, population movements, etc.) as well as achieve its own primary goals (of combating poverty, above all).

Such synergy between Community policies may be generated around a number of specific themes (environment, population movements, AIDS, debt, the developing countries' integration into world markets, etc.) that involve issues that transcend or run parallel to the area of application, strictly defined, of a number of common policies or bilateral policies pursued by the Member States.

The Commission will carry out a systematic review of such themes to identify those which best lend themselves to such an approach. The Commission's proposals on immigration offer a useful illustration of such an approach. The Commission's communication on the matter (SEC(91)1855) emphasized the need for greater coordination of national and Community development policy and incorporation of this dimension in future cooperation agreements wherever necessary. It went on to identify certain types of projects that could be promoted under development cooperation policy to help resolve immigration problems.[1] These proposals contributed to a concerted Community approach to the issue.

41. In the context of its international economic relations the Community must seek to remedy its weakness when it comes to speaking with a single voice and taking initiatives through a general approach on three fronts.

- The economy and international economic cooperation: the aim here will be to improve the representation of the developing countries in multilateral institutions and to stimulate world growth. The Community can contribute to the latter through its own efforts (single market, EMU) and by persuading its two main partners (the United States and Japan) to improve their budgetary and trade policies.

- Trade: the goals here are to bring the developing countries into the GATT and to proceed with trade liberalization while taking into account the special situation of the least developed countries and the trade arrangements justified by this situation.

- Aid and other financial flows: the Community's aim here should be to increase total ODA flows thanks to greater burden-sharing between the industrialized countries and to improve the quality of aid (grant element and untying).

42. As regards direct aid and cooperation with the developing countries, the Community has to make good the coordination shortfall in its relations with individual countries and bilateral relations between its Member States and those same countries.

The Community's relations with developing countries will call for the coordinated implementation of existing or (depending on the case) new financial instruments, of which there are already a wide range: trade preferences, various forms of aid (humanitarian, food, technical, aid for projects, programmes and policies, non-project aid, etc.), systems for compensating losses of export earnings, mutually beneficial economic cooperation, aid for combating drug trafficking and environmental conservation.

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1 SEC(91) 1855, points 48 and 49.

In this concerted bilateral action by the Community and the Member States the pursuit of the individual developing country's development goals must go hand in hand with detailed consideration of specific themes that may be relevant (see point 40).

These instruments must be used in the context of a common development strategy that can be adapted to the conditions, circumstances and needs of each developing country or group of developing countries.

C. Geographic weighting

43. Developing regions each have individual characteristics that justify the Community's playing an active role. In terms of development cooperation, however, the extent to which Community policy has the potential to exert real influence on development varies from region to region. The degree of influence is determined by the "weight" of the Community and its Member States in the aid total (the "relative mass" of Community aid) and the scale of the aid in relation to macroeconomic aggregates (e.g. GDP, budget). It also depends on the recipient country's capacity to use the aid in pursuit of appropriate policies.

For reasons of history, geographical proximity or political priority, the volume of Community ODA is unequally spread amongst the different regions of the world, and is likely to remain so.

44. The developing countries' needs vary according to their degree of development. There are a number of internationally recognized classifications of development, based for the most part on economic criteria (e.g. *per capita* GNP) and social indicators. Such a typology of the developing countries, taking into account the considerations discussed above, can guide us in the formulation of a policy mix suited to each country and region. The granting of aid should be subject to performance criteria so that the recipient countries are those that will draw the maximum benefit from it.

45. The priorities for each region of the world can be briefly summed up as follows:

Sub-Saharan Africa: economic restructuring, administrative overhaul and democratic reforms should be a priority for Community aid. Such reforms, however, which are a long-term process, will call for a "contract" of true partnership between Africa and the Community.

Other cooperation activities must go hand in hand with reform measures to deal with Africa's long-term problems - food security, environmental protection, population growth, development of human resources and basic infrastructure.

integration into the international economy is a much longer-term objective for most African countries. Development priorities for the immediate future would appear to be the stable working of commodity markets and aid for bringing about greater regional cooperation.

Mediterranean: here the major problems are political, environmental and social (emigration). Aid should be increased and refocused on family planning programmes, technical assistance for institutions with the aim of supporting reform, regional cooperation and economic cooperation.

Latin America: special importance will be accorded to a policy dialogue in all appropriate forums and to investment promotion and the private sector, without, however, neglecting the need for increased ODA for the poorest countries. In the present circumstances, commercial and financial support for the economic and political reform under way in most Latin American countries is essential to prevent discouragement and relapse. The efforts already made to help these countries to take better account of environmental concerns in their development strategy (pilot programme for the Amazonian forest in Brazil, for example) must be continued.

Asia: this continent presents widely contrasting situations. The overall objective should be to boost the Community's economic presence (exports and investment) in the most dynamic region of the world, while ensuring that the region's economic dynamism does not result in greater environmental damage. The means should be adapted to the areas and countries concerned. The least developed countries will continue to receive development aid of the traditional type.

CONCLUSIONS

The record of three decades of development and development cooperation reveals that the role of domestic policies and of trade and the international economic context (growth, interest rates) is essential to the (differentiated) performance of the developing countries.

Consequently, the role of aid must be clarified and measured in relative terms. Aid is more important for some regions than for others, and it is much more effective when used in bilateral relations as leverage for the implementation of good economic and political reforms (restructuring, good governance, democratization) and slanted towards sustainable development. Aid cannot make up for a lack of good domestic policies or commercial outlets.

Political dialogue with the developing countries with a view to the adoption of political and economic reforms is absolutely essential.

This dialogue will be credible only if backed up by action on the part of the industrialized countries, not simply in the form of aid but also as regards trade and the establishment of a favourable international economic context.

(i) In trade, rapid conclusion of the Uruguay Round of negotiations is the main priority. In any event, the various commercial policy instruments must be used in a way which ties in with our policy towards the developing countries.

(ii) As regards the general economic environment (growth, level of interest rates), the Community could play all the more effective a role as it neared full economic and monetary union).

To conclude, the Community's relations with the developing countries, a key element of which is development cooperation, need to be reviewed in the light of the radical changes taking place on the international political scene and considerations such as the developing countries' role in the world economy, the need to harness the new forms of interdependence globally and effectively, growing European integration and the deadlines the Community has set itself in coming years. The objectives of a common policy on development cooperation and the methods for achieving them are set out in Title XVII of the Treaty of Maastricht.

The purpose of this communication is to flesh out these objectives and methods. On approval of these guidelines by the Council and Parliament, the Commission will take appropriate steps to implement them, in accordance with Article 130x(2) of Title XVII of the Treaty of Maastricht.

Annex: paper on the Community's relations with the developing countries in the light of political union.

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CORRIGENDUM

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and Parliament

DEVELOPMENT COOPERATION POLICY IN THE RUN-UP TO 2000

**(The Community's relations with the developing
countries viewed in the context of political union)**

The consequences of the Maastricht Treaty

Annex to the Communication from the Commission to the Council and Parliament on development cooperation policy in the run-up to 2000.

THE COMMUNITY'S RELATIONS WITH THE DEVELOPING COUNTRIES VIEWED IN THE CONTEXT OF POLITICAL UNION

DISCUSSION PAPER

1. ASSESSMENT AND LESSONS OF THREE DECADES OF DEVELOPMENT

1.1. THE MACROECONOMIC BACKGROUND

1.1.1. OVERALL GROWTH OF THE DEVELOPING COUNTRIES : some individual successes against a backdrop of crisis.

Since the start of the sixties, the growth rate of third world economies would seem at first glance to have outstripped that of the OECD members. But this observation needs to be shaded, as Table 1's breakdown by region and by period shows. The breaks between the sub-periods chosen coincide with the two oil crises.

Table 1 Annual average growth rate of GDP, in constant dollars[1]

	65-73	73-80	80-89
OECD members	4.7	3.0	3.0
Developing countries	6.5	4.7	3.8
of which:			
Sub-Saharan Africa	4.8	3.2	2.1
Eastern Asia	8.1	6.6	7.9
Southern Asia	3.6	4.2	5.1
Latin America and the Caribbean	6.5	5.0	1.6

Source: World Bank, World Development Report 1990 and 1991

Growth in the developing countries as a whole - as indeed in industrialized countries - slowed down considerably after the first oil crisis, and failed to pick up afterwards because the reversal of financial flows which occurred from 1982 onwards forced the Third World into austerity programmes which resulted in lower demand.

The situation has not been the same for all regions however. There has been a continuous, marked decline in the growth rate in sub-Saharan Africa and Latin America; in contrast, the GDP has risen in eastern Asia. While, in the sixties, southern Asia was the only region where growth was well below the level of the industrialized countries, it has climbed steadily in the three sub-periods we are looking at.

[1] The heading "developing countries" used here includes all those countries classified as low- or medium-income countries by the World Bank, i.e. those in the four regions mentioned in the table plus the eastern European, Middle Eastern, and North African countries.

When population growth is brought into the equation, the contrasts which emerged in Table 1 are further heightened (Table 2).

Table 2 *Per capita* GNP (in 1989 dollars)

	Annual average growth rate			GNP/inhab.	
	65-73	73-80	80-89	1980	1989
OECD	3.8	2.3	2.4	10 750	19 090
Developing countries	4.2	2.5	1.5	700	800
of which:					
Sub-Sah. Africa	1.7	0.6	- 1.2	380	340
Eastern Asia	5.2	4.7	6.3	310	540
Southern Asia	1.2	1.9	2.9	260	320
Latin America	4.7	2.3	- 0.5	2 000	1 950

Source: World Bank, World Development Report 1991

Widely differing trends can be noted. In eastern Asia, strong economic growth coupled with a steady diminution of the population growth rate have resulted in a significant rise in *per capita* income. In southern Asia the trend towards higher *per capita* incomes reflects the success of the green revolution plus substantial industrial development, which in this part of the world has offset still-rising population growth. In Latin America on the other hand, the situation has steadily worsened during the period analyzed. This is due rather to the debt crisis and the failure of adjustment measures to cope with external forces than to demographic pressures, which have in fact eased. In sub-Saharan Africa, increasing population growth, combined with external forces and economic policy that has not dealt adequately with the problem, have produced a dramatic fall in *per capita* income.

The trend of *per capita* consumption follows the same curve as income and reveals growing poverty in some parts of the world leading to increasing dependence on international food aid.

1.1.2. OVERALL SECTORAL TRENDS : weak agricultural recovery and de-industrialization in the developing countries

To form a clearer picture of the situation, even in a fairly brief analysis like this, it is important to point out the diverging trends exhibited by the various economic sectors (Table 3). The growth in industrial output has remained very high in eastern Asia and has accelerated continually in southern Asia, while the lack of investment and imported inputs have put a brake on growth in Latin America and Africa. The slow-down in growth that was a feature of the second of the sub-periods we have chosen had a negative effect on agricultural production in all the regions save Latin America. This has been followed everywhere by a period of recovery, particularly noticeable in Africa where structural adjustment has been specifically aimed at boosting this sector. The third sub-period has seen a significant contraction of the service sector in the regions that have suffered from the largest drops in per capita income and where the strictest structural adjustment policy has been adopted.

Table 3 Sectoral growth rates

	65-73	73-80	80-89	as % (1989)
OECD				
Agriculture	-	- 2.5	1.3	3%[1]
Industry	10.9	1.7	2.2	31%[1]
Services	12.6	0.6	3.1	66%[1]
Developing countries				
Agriculture	3.0	2.5	3.3	19%
Industry	8.3	4.9	4.5	38%
Services	7.3	6.4	3.5	43%
Sub-Saharan Africa				
Agriculture	2.4	1.1	2.0	32%
Industry	10.4	4.3	0.7	27%
Services	3.4	4.2	2.3	41%
Eastern Asia				
Agriculture	3.2	2.5	5.2	24%
Industry	12.4	9.4	10.4	44%
Services	9.8	7.2	7.7	32%
Southern Asia				
Agriculture	3.1	2.2	2.9	32%
Industry	3.9	5.5	6.7	26%
Services	4.0	5.3	6.3	42%
Latin America				
Agriculture	2.8	3.3	1.9	10%[1]
Industry	7.5	5.4	1.6	37%[1]
Services	7.5	5.8	1.6	53%[1]

Source : World Bank, World Development Report 1991.

[1] 1987.

1.1.3. TRADE : slump in commodities exports, continued growth for manufactured goods

For the developing countries as a whole, exports of manufactures have grown noticeably faster than commodity exports. They have not been as vulnerable, either, to fluctuating conditions (Table 4).

In eastern Asia, industrial exports increased by leaps and bounds during the first two sub-periods and then settled down to a steady rhythm that still outpaced that of any other geographical area. During the second sub-period, manufactures from southern Asia started to carve out a real portion of world markets, and this they have managed to retain. The pattern of Asian exports is coming more and more to resemble that of the OECD members.

Manufactured goods account for a smaller share of Latin American exports, because of the predominance of oil and minerals in some countries' exports. During the first sub-period, however, they expanded rapidly. This growth later subsided, as a reflection of lower industrial output. It is clear that the industrial base has been eroded in this part of the world by the drop in investments caused by hyperinflation and the sub-continent's enormous debt. A comparison with figures for sectoral production shows that it is industry geared to the domestic market that has been hardest hit; exports of manufactures have grown four times as fast as industrial output in the third sub-period.

While in the three regions mentioned above, exports of manufactures make a large contribution to the favourable growth rate for total exports, in sub-Saharan Africa, they come nowhere near making up for the decline in commodity exports.

Table 4 Growth in and pattern of export volumes

	65-73	73-80	80-89	as % (1989)
OECD	9.5	5.4	3.8	
Manufactures	10.6	5.2	4.0	81%
Commodities	5.7	6.4	2.6	19%
Developing countries	5.1	3.5	5.3	
Manufactures	10.9	13.0	7.3	53%
Commodities	4.0	1.2	2.9	47%
of which:				
Sub-Saharan Africa	14.2	- 0.2	- 1.0	
Manufactures	5.8	9.7	1.0 [1]	11%
Commodities	14.7	- 0.8	- 1.2 [1]	89%
Eastern Asia	10.6	9.4	9.4	
Manufactures	28.3	17.1	12.8	69%
Commodities	8.4	5.0	3.9 [1]	31%
Southern Asia	- 0.2	4.5	6.1	
Manufactures	1.1	6.3	6.8 [1]	70%
Commodities	- 1.8	3.1	3.0 [1]	30%
Latin America	- 0.4	2.2	4.0	
Manufactures	16.7	9.5	7.0	36%
Commodities	- 1.9	0.2	2.8	44%

[1] 1980-88

Source : World Bank, World Development Report, 1991

On the demand side, it is interesting to note the effects of the policy of industrialized countries.

The proportion of manufactures imported has grown more quickly among members of the OECD than among developing countries. This is a measure of the growing industrialization of the latter (as well as the result of the relocation of some of the OECD's industry outside their own zone).

Table 5 indicates that, as a purchaser, the US looks set to become a larger and larger market for goods from the developing world. However, from Table 5a, it can be seen that, for the developing countries, especially those of the Mediterranean and sub-Saharan Africa, the European Community is still a vital outlet for their goods.

Table 5 Developing country exports

To:	US	Japan	EEC	US	Japan	EEC
	USD (1989) billion			Annual average growth[1] rate 1967-89		
Total exports						
Sub-Sah. Africa	9.9	1.3	16.3	3.5	- 5.2	- 1.4
Asian NIC[2]	70.6	31.6	34.3	12.9	12.2	11.1
Other Asian	30.2	34.2	24.6	8.6	8.1	5.3
Latin American	54.6	7.2	25.2	3.9	2.9	1.0
Industrial exports						
Sub-Sah. Africa	0.6	0.6	4.4	3.7	- 3.9	- 1.9
Asian NIC[2]	68.9	23.6	32.9	13.4	16.3	12.7
Other Asian	23.9	11.4	17.4	11.9	10.9	9.7
Latin American	29.9	3.1	8.9	10.9	9.6	4.2
Arab countries[3]	0.5	0.7	5.7	8.2	23.1	8.6
TOTAL	109.4	34.8	61.3	12.5	11.6	7.8

Industrial products as % of total exports, 1989	US	Japan	EEC	TOTAL 3 markets
Sub-Sah. Africa	6.3	44.7	27	20.4
Asian NIC	97.6	74.5	95.8	91.8
Other Asian	95	54.8	88	81.4
Latin American	54	42.7	35.1	48.1
TOTAL	82.6	59.8	72.5	74.7
TOTAL (without NIC)				67.7

Source : CEPII database
IMF, International Statistics

[1] The annual average growth rate, at constant 1967-89 prices, has been calculated by least squares regression.

[2] Korea, Hong Kong, Taiwan, Singapore. [3] Includes North African and Middle East countries

Table 5a Community share of exports of goods from these countries in 1989 (as %)

Sub-Sah. Africa	Mediterranean and Middle East	Southern Asia	Eastern Asia	Latin America
51.9	35.3	28.7	15.6	24.1

The increase in the share of manufactured goods from Asian and Latin American countries is mirrored by a change in the pattern of trade, mainly benefiting the mechanical and electrical sectors. Trade amongst countries of the South, however, is still modest, only accounting for 14% of the total for Asia, 11% for Latin America, and a mere 6% for sub-Saharan Africa.

We can get an idea of the terms of trade by comparing the value of the developing countries' exports with the value of OECD exports of manufactures, the latter providing an indication of how the value of the developing countries' non-energy imports has varied.

We are thus able to conclude that the developing countries' terms of trade, after improving in the first sub-period, have declined since 1973 (excluding oil). The same is true for manufactured goods, either because more rapid market penetration has been achieved through lower price increases, or because a different pattern has emerged inside the heading, to the detriment of the labour-intensive products in which the developing countries specialize.

Table 6 Value of exports and terms of trade
Average annual growth rates

	1965-73	1973-80	1980-88
Value of developing countries' exports			
Manufactures	5.8	6.8	0
	(10.9)	(13.0)	(8.0)
Food products	5.9	8.3	-0.5
	(2.5)	(4.9)	(2.3)
Metals and minerals	2.7	4.0	1.1
	(6.6)	(5.6)	(- 2.1)
Other raw materials	3.1	9.8	- 0.9
	(2.4)	(3.1)	(1.3)
Energy products	9.0	29.5	- 10.3
	(5.3)	(- 0.8)	(2.5)
Value of OECD exports of manufactures	4.6	10.7	2.4

[1] Figures in brackets refer to growth rate of export volumes.

Source : World Bank, World Development Report 1991
Note however that IMF price indexes would give slightly different results.

1.1.4. FINANCIAL FLOWS : after a ten-year decline, a few signs of recovery

Until the start of the eighties, net financial flows (direct investment, commercial borrowing, official aid and concessionary loans, minus amortization and repayments) enabled domestic spending to outstrip national domestic production.

During the first period (1965-73), we see official aid playing a leading role, even though it gradually dropped from 1.7% to 1.2% of Third World GDP, with direct investment playing a subsidiary role (0.5% of the GDP).

The second sub-period (1973-80), during which petrodollars were recycled, saw a substantial volume of private borrowing and hence an accumulation of debts to banks. In 1982, this borrowing still represented 2.8% of these countries' GDP, but from 1984 flows of this type were, on average, in the outward direction.

The strong growth seen up until 1973 was helped by growth in earnings, then by increasing recourse to loans in a context of abundant petrodollars and very low real interest rates. Latin American and sub-Saharan African countries entered the eighties in unstable conditions (inflation, problems of public finances, exchange rates and the current account) which made it particularly difficult to adapt to the rise in real interest rates; the result was a slump in investments and a return to rates, as a percentage of GDP, lower than those of the sixties. The countries of Asia, especially of eastern Asia, on the other hand, were able to pursue a more ambitious investment policy allowing production and exports to be maintained at the same level, or even increased.

Following the 1982 crisis, triggered by the recession in the industrialized countries, the value of the developing countries' exports, which had shot up in the seventies, dropped off, causing a shortage of foreign exchange. Explained another way, real interest rates (nominal rates deflated by prices paid for their exports), which had been negative for nine out of the ten previous years, suddenly became positive. Debt repayment became increasingly difficult and banks no longer wished to lend money.

Table 7 Gross investment

A. Average annual growth rate as %

	65-80	80-89
OECD members	3.5	4.3
Developing countries	8.2	2.0
of which:		
Sub-Sah. Africa	8.6	- 3.9
Eastern Asia	11.4	9.9
Southern Asia	4.3	4.1
Latin America	8.1	- 2.3

B. Gross investment as % of GDP (averages for the period)

	65-73	73-80	80-89
Sub-Sah. Africa	16.2	20.8	15.9
Eastern Asia	24.2	29.7	30.4
Southern Asia	17.1	19.9	22.2
Latin America	20.7	23.9	20.0

Source : World Bank, World Development Report, 1991.

The developing countries (apart from the Middle East lending ones), which till then had been able to pay for import surpluses (still, in 1982, standing at USD 49 billion) were obligedto cut down on their purchases, with the result that capital expenditure was cut. In recent years, the developing countries have, as a whole, been able to get rid of their balance-of-payments deficits, thanks to "voluntary" loans (as opposed to money that has been lent "involuntarily", when debtors default) and to transfers, which only cover two thirds of the interest due, the balance being made up from a surplus of goods and services, and by letting arrears accumulate.

The result of this reversal of financial flows has been to make the countries concerned spend less than they earn. This means that austerity has been forced on them, at least as far as their relations with the outside world are concerned (on the domestic level, countries can always take refuge in inflation, the creation of surplus demand and the transfer of the burden of a reduction in real resources to other social groups).
The IMF's stabilization programmes should therefore be viewed primarily as a means of managing an inevitable austerity situation (and of alleviating its effects somewhat by foreign loans) instead of as the actual cause of the austerity. The objective is to bring about a reduction in spending, while trying to minimize some of the effects, e.g. fall-off in production, increased poverty, and having to go without much-needed capital purchases.

The objective has not always been attained, however. It should be noted that, from 1990, according to World Bank projections, net flows of resources to the developing countries would seem to be improving both quantitatively (net flows were USD 116 billion in 1982, USD 82 billion in 1986 and USD 144 billion in 1990) and qualitatively, in that their composition is now closer to what it was in the sixties and the start of the seventies, as opposed to the situation at the end of that decade, when bank loans were excessive.

This improvement is the result of an increase in ODA,[1] official loans (especially from multilateral lenders) and a recovery in direct investment from abroad. This has steadily expanded since 1986, but is still principally concentrated on the newly-industrialized countries of Asia and, more recently, on a few Latin American countries.

Inward financial flows nevertheless remain far below the requirements of a large number of countries.

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[1] Official Development Assistance

1.1.5. THE DEBT : a crisis with as yet no satisfactory end in sight

Third World indebtedness has continued to rise in recent years. Although some of the largest debtors (Mexico, Korea, Chile and Venezuela) have succeeded in reducing theirs, the total still rose by more than USD 200 billion between 1986 and 1990, by which time it stood at USD 1 300 billion, according to the IMF (the World Bank puts the figure at USD 1 400 billion). Part of the increase is the result of the falling value of the dollar vis-à-vis the ecu and the yen. The IMF estimates that the cost of servicing this debt in 1990 was USD 170 billion (compared, for example, with Official Development Assistance which was probably below USD 50 billion). Debt-servicing costs more and more each year, and the measures to limit this bill have little practical effect. It is true that worldwide, increases in exports have done something to reduce this cost (causing it, as a percentage of foreign exchange earnings, to drop from 22% to 16% between 1986 and 1990). These overall figures, however, mask the deterioration in many individual, or even regional, situations.

Thus, while the worst year of the debt crisis in Latin America was 1982, when no more "voluntary" loans were granted, sub-Saharan Africa's debt doubled between 1982 and 1990 (when it was estimated at USD 160 billion, almost USD 55 billion of it in private debt). In 1982, this part of the world was able to pay 80% of the debt-servicing it had contracted for, but the proportion has fallen to less than 40% in the last three years (which covered almost all of the multilateral debt-servicing, less than 20% of the bilateral government debt, and more than one third of the private debt charges). Rescheduling is mainly aimed at capitalizing arrears of interest payments and reimbursements; inevitably, this results in lower short-term charges, but higher long-term commitments. At present, five African countries all have debts that are twelve-fold greater than the value of their exports (the average for all countries in the region is 3.5 times their export earnings). In other words, if they were to repay their debts, almost their entire earnings from trade would be absorbed. An extreme case is Sudan: donors are spending USD 800-900 million a year mainly to prevent a part of its population from dying of hunger; its export earnings, of around USD 500 million are partly spent on arms purchases to continue the civil war, and the debt, which has stood at more than USD 13 billion since 1989, is increasing by over USD 1 billion a year, through capitalization of the unpaid interest. Other cases, though less dramatic, are equally disturbing.

In 1989, the countries of sub-Saharan Africa actually paid more than USD 7 billion in interest. The concessionary part of the bilaterally-contracted official debt (unlike the multilateral debt) has dropped from 50% in 1986 to 41% in 1990, under the effect of rescheduling, which has converted previously subsidized interest into unsubsidized capital, i.e. debt cancellation has only been carried out in respect of loans on special terms. Although creditors are beginning to tackle this problem with rather more common sense, there is still little change. The World Bank has calculated, for example, that the average terms of the Toronto Agreement will reduce sub-Saharan Africa's annual charges by a mere USD 300 million and its total debt by USD 2 billion (and then only by the year 2000). Such figures pale into insignificance by the side of those mentioned above.

In North Africa, the most serious case was Egypt, where the repatriated earnings of migrant workers (many of them in the Gulf) represented almost twice as much as earnings from the export of goods, while the USD 49 billion debt was more than seven times these earnings. This case has now largely been settled, but for sub-Saharan Africa, effective measures still have to be taken. The UK's proposals (Trinidad conditions, September 1990) have not yet been adopted. Since 1988, the World Bank has been applying interest-rate subsidies on money owed to it by certain borrowers, but similar measures have not been brought into play by the African Development Bank or for Arab Funds. The World Bank also set up a special fund for buying up commercial debts in 1989, but up until July 1991, the only time the fund has been used has been in the case of Niger, where a debt of a little over USD 100 million was repurchased at 18% of its nominal value. This type of debt (considered as the most onerous) is thought to amount to USD 55 billion for sub-Saharan Africa. The examples given suggest that forms of effective action do exist, but that the problem is first and foremost one of political will on the part of creditor countries.

1.2. SOCIAL TRENDS : overall progress, but with many situations where extreme poverty still persists

The effects of development cooperation policies on people's well-being cannot be assessed solely by means of economic indicators. Since such well-being is the ultimate goal of development, it would seem vital, in order to measure the effects of cooperation policy in this period, to take account of trends in social indicators.

The social parameters set out in Table 8 show general progress for all the developing countries and all the indicators. Life expectancy, for example, has risen from 46 years in 1960 to 63 years today, while infant mortality has fallen from 233 to 116 for 1 000 live births; the literacy rate of the adult population has increased from 46% to 60%, and schooling for young people from 55% in 1970 to 70% in 1987.

Despite these indications of progress, the table shows some very sharp contrasts. Substantial gaps remain between developing and industrialized countries. Poverty rates have worsened during the past decade and there is a tendency for situations of inequality to become entrenched.

Table 8 Indicators of human development

	Industr. countries	D.cs.	S-S A.	Eastern Asia	Southern Asia	Latin America
Life expectancy at birth*						
1960	69	46	40	47	44	56
1990	74	63	52	68	58	67
Daily calorie intake[1] *						
1965	114	90	92	86	88	100
1985	132	107	91	112	100	115
Infant mortality per thousand*						
1960	45	233	284	198	279	157
1989	18	116	179	57	151	72
% of popln. with access to health care	...	61	45	75	56	61
% of popln. with drinking water access						
1975	...	35	24	..	32	58
85-87	...	55	37	48	54	73
% of popln.with access to sanitation	...	32	..	51	11	60
Enrolment in primary/secondary schools (%)*						
1970	...	55	26	65	45	68
1987	...	70	45	81	60	84
Adult literacy (% of over-15s)						
1970	...	43	26	67	31	72
1985	...	60	48	71	41	83
% of popln. below the poverty line[2] **						
1985	...	33	47	20	51	19

[1] as % of normal intake.

[2] the poverty line is fixed at USD 370 per capita.

Sources : Without asterisk, UNDP Human Development Report 1990
* - UNDP Human Development Report 1991
** - World Bank, world development Report 1990

1.2.1. POVERTY AND UNEQUAL DISTRIBUTION OF INCOME

According to the World Bank report on the subject, there were more than 1.1 billion people in the world living below the poverty line in 1985. By far the greatest proportion of them live in southern and eastern Asia (800 million altogether, of which 420 million were in India, 210 million were in China and 60 million in Bangladesh). The number of poor in sub-Saharan Africa was 180 million, representing 47% of the population - a percentage almost as high as the 55% in India and Bangladesh, but against a background of even less favourable social indicators. In Latin America (including the Caribbean), numbers and proportions are much lower (70 million below the poverty line, i.e. 19% of the population) and other indicators are also better.

In all the countries for which data exists, poverty is essentially a rural phenomenon. It is particularly striking in Africa - in Côte d'Ivoire, for example, the incidence is 9% in the towns and 44% in rural areas. But pockets of urban poverty are becoming more and more common.

It would be a long and difficult exercise to identify the whole set of factors responsible for causing such a large proportion of humanity to live in a state of poverty and remain there. Chief among them, undoubtedly, is access to land. We find, in Bangladesh for example, that 93% of the rural population with less than 0.2 ha are poor, whereas the proportion drops to 10% for those lucky enough to own more than 3 ha. In India, water and land are equally decisive; the eastern states (Bihar and Orissa) have 50% more poor people than the average, while in the irrigated Punjab, where the green revolution was focused, the proportion is only 40% of the average. Other factors also affect the issue: families headed by a woman or by someone illiterate are also poorer than average.

Up until the eighties, long-term trends, wherever such figures are available, indicated a significant decrease in the proportion of poor people, usually accompanied by a drop in absolute numbers, except for India, where the total hardly changed until 1983.

Generally speaking, economic growth has been the main agent in reducing poverty. The spectacular progress registered in the Asian countries with rapid growth, like Indonesia (where the incidence of poverty fell from 58% to 17% of the population between 1970 and 1987), Malaysia, Thailand and Pakistan, provides the proof of its prime importance. In Latin America as well, the period of rapid growth produced similar results; Brazil for example saw its poverty rate fall from 50% to 19% between 1960 and 1981, but under the recession the proportion has now climbed back to 24%. Other than where income shares have become very unequal (though Table 9 shows that this is the exception), growth benefits the entire population, despite the continuing existence of pockets of poverty.

Inversely, the recession which followed in the eighties, in Africa, Latin America and some of the eastern European countries, had an adverse effect on the poorest sectors of society. The shrinking job market often resulted - both in the rural and urban context - in a fall in real wages (particularly in the informal sector, where there is little protection against inflation). In Africa, the poorest group in subsistence farming was protected, but the slump in export prices for produce pushed a number of small-holders below the poverty threshold. In Brazil, the most serious case of all, the absolute number of poor people climbed from 23 to 33 million between 1981 and 1987. Certain elements of structural adjustment programmes like the reduction in public spending have had adverse effects on the poorest sections in some countries; however, here it is mainly the middle classes who have suffered most. But other elements of these programmes, like devaluation and re-balancing the terms of trade in favour of agriculture, have, on the other hand, generally had a good effect.

It must be added that international aid overall has not been very effective in reducing poverty: this is the conclusion of the DAC study on development cooperation as a whole for the period 1960-85. Firstly, in 1988-89, only 60% of the aid to developing countries went to the 41 countries in the low-income category. And among these, the aid was not always put to good use: in Africa, for example, the largest amounts of aid in the last 10 years have gone to three countries (Sudan, Tanzania and Zaire), where no progress has been made, while other countries have fallen into a state of dependency on aid which has merely pushed recovery further into the future. However, whereas programmes in the seventies concentrated on poverty, in the eighties, effectiveness has now come into focus. This new awareness of what is needed has not yet been reflected in the figures so far available.

The phenomenon of poverty cannot however be grasped or addressed correctly unless it is viewed in the context of persistent inequalities within particular countries.

Some of the statistics on well-being are more revelatory of the progress made in those sectors of society which have been closely studied (e.g. urban élites) and may therefore paint an over-optimistic picture of the situation.

One important gauge of inequality is income distribution. Unfortunately, information about this is very limited and often out of date. The following table gives three indexes, at two different dates, when data has been available

(i) poverty measured by the proportion of national income going to the poorest 40% of the population;

(ii) income concentration, measured by the share going to the richest 10%;

(iii) inequality, expressed as the ratio of the shares going to the top and bottom 20%.

These three indicators are obviously closely correlated, but not entirely. For purposes of comparison, the figures for Japan, the US and Germany have been included.

Table 9 also shows <u>per capita</u> income, calculated in terms of parity of purchasing power in dollars in 1989. These figures combined with those of the first indexe (share of income of the bottom 40%), give a rough measure of the average income of the poorest classes.

The fairest distribution in general occurs in Asia. This is the only place where the poorest 40% receive 20% of the income and where the inequality coefficient (as expressed) is usually lower then 10. Latin America is the region where the greatest inequality exists. It may also be noted that, for eight of the 10 countries where surveys conducted in the seventies and again in the eighties are both available, a slight improvement in income distribution is observable.

Table 9 Indicators of income distribution

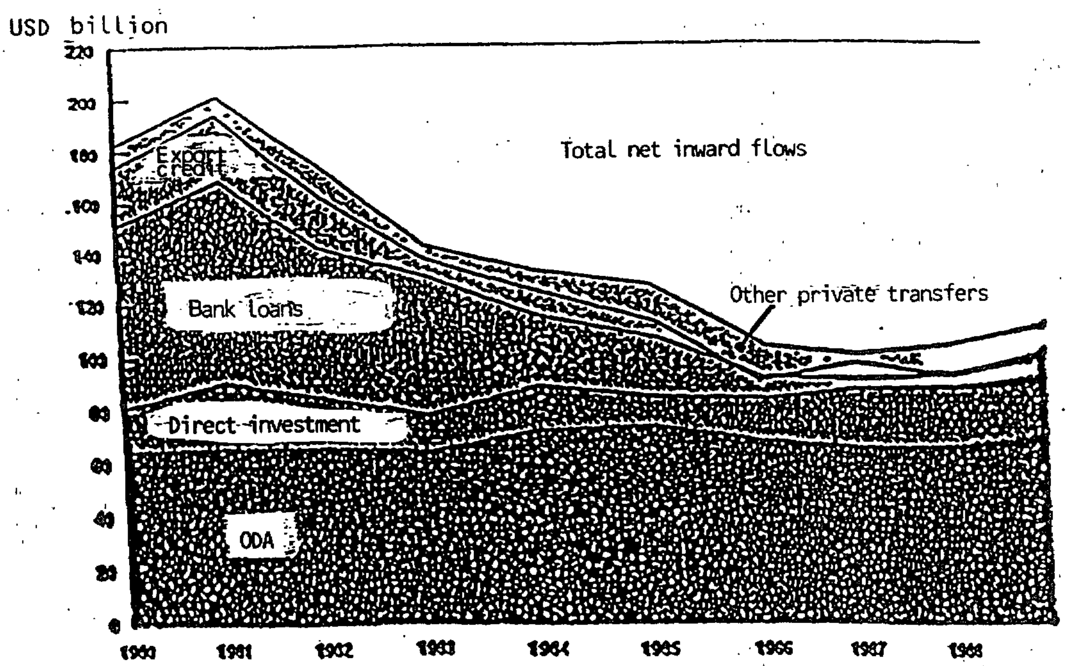
	Shares					Shares			Income
	DATE	Bottom 40%	Top 10%	Top 20% / Bottom 20%	DATE	Bottom 20%	Top 10%	Top 20% / Bottom 20%	p.c. $, 1989
BANGLADESH	73	18.20	27.40	6.10	85	23.70	23.20	3.70	960.00
INDIA	75	16.20	33.60	7.10	83	20.40	26.70	5.10	980.00
PAKISTAN					84	19.00	31.30	5.80	1700.00
SRI LANKA	69	19.20	28.20	5.80	85	13.30	43.00	11.70	2160.00
INDONESIA	76	14.40	34.00	7.50	87	21.20	26.50	4.70	
PHILIPPINES	70	14.20	38.50	10.40	85	15.20	32.10	8.70	2280.00
THAILAND	76	15.20	34.10	8.90					4190.00
KOREA	76	16.90	27.50	7.90					6720.00
MALAYSIA	73	11.20	39.80	16.00	87	13.90	34.80	11.10	
TAIWAN	71	21.90	24.70	4.50					
HONG KONG					80	16.20	31.30	8.70	
SINGAPORE					82	15.00	33.50	9.60	
KENYA	76	8.90	45.80	23.20	7				
GHANA					87	17.40	29.10	6.90	1070.00
C.A. REP.	75	16.20	33.60	7.10					
ZAMBIA	76	10.80	46.40	18.00					
COTE D'IVOIRE					86	13.00	36.30	10.50	1700.00
MAURITIUS					80	11.50	46.70	15.10	6030.00
BOTSWANA					85	9.00	42.80	23.60	3390.00
EL SALVADOR	76	15.50	29.50	8.60					
GUATEMALA					80	14.10	40.80	10.00	
PERU	72	7.00	42.90	32.10	85	12.90	35.80	11.80	
MEXICO	77	9.90	40.60	19.90					
COSTA RICA	71	12.00	39.50	16.60	86	11.60	38.80	16.50	
BRAZIL	72	7.00	50.60	33.30	83	8.10	46.20	26.10	
ARGENTINA	70	14.10	35.20	11.40					
VENEZUELA	70	10.30	35.70	18.00	87	13.9	34.2	10.80	
PANAMA	70	7.20	44.20	30.90					
COLOMBIA					88	12.70	37.10	13.30	
JAPAN					79	21.90	22.40	4.30	
USA					85	15.70	25.00	8.90	
FRG					84	19.50	23.40	5.70	

1.3. THE INDUSTRIALIZED COUNTRIES' SUPPORT FOR COOPERATION POLICY

1.3.1. AID STATISTICS : increased ODA and unaltered uses

Offical development aid combined with direct investment now accounts for 80% of all inward flows of money to the developing world, whereas in 1980, this figures was 45% (see Chart 1). These forms of finance now predominate, owing to the collapse of bank lending from 1981 on.

Chart 1 Total net financial flows from all sources, by type, 1980-89 (at 1988 prices and exchange rates)



The total volume of Official Development Assistance (ODA) has more or less followed the trend of donor countries' real income, at least as far as members of the Development Assistance Committee (DAC), who provide most of the aid, are concerned. It represented the same proportion of their GNP in 1988 as in 1970 (0.35%). The GDP of DAC members has increased by an average of 3.1% over the same period. Other suppliers of funds have not kept in line, however (in particular, aid from the Arab countries, the most generous donors while the price of oil was high, has dropped off drastically since 1986). Total aid, in fact, has only increased by 2.8% a year in real terms. As the population of the developing countries has been increasing at just over 2.1% a year, the real increase in ODA per capita, overall, has actually been considerably less than 1%. Looking at sub-Saharan Africa in particular, we see that total ODA has also increased by 3.1% a year in real terms, but this falls slightly short of population growth. The proportion of grants from the DAC countries has risen, but this has been offset by the drop in other contributions.

There have been major changes in the distribution pattern of DAC members' contributions; the US is no longer as prominent a funder, while Japan, the Scandinavian countries and the EEC Member States are all providing more.

Table 10 Breakdown of ODA by groups of country (as % of total)

	1970-71	1988-89
USA	24.8	15.9
EEC(of 12)	35.1	41.0
Japan	9.1	16.9
Scandinavian countries	2.0	6.0
Others [1]	29.0	20.2
TOTAL	100	100
TOTAL (USD billion) [2]	33.3	55.0

Source : DAC Report, 1990

It may be noted that almost 30% of DAC members' aid is applied via multilateral organizations, with a little over 5% channelled through the EEC. It is clear that ODA is given for a variety of motives - commercial, political and cultural - in addition to those that are directly linked to development.

[1] Including the Arab countries, the USSR, etc.

[2] At 1988 prices and exchange rates. The country figures include their contributions to multilateral bodies.

Table 11 ODA of EEC Member States 1988-89

(net disbursements) 1989 and 1990
EEC plus Member States' own contributions
USD '000 000(a); as % of donors' GNP(b)

		B	DK	DE	FR*	IRL	IT	NL	UK	ESP	GR	POR	LUX	Total	of which EEC
(a)	1989	703	937	4949	7450	49	3613	2097	2587	537	38	107	18	23.085	2809
(b)	%	0.46	0.94	0.41	0.78	0.42	0.31	0.94	0.14	0.14	0.07	0.24	0.29	-	-
(a)	1990	891	1171	6320	9381	57	3395	2592	2647	959	..	148	25	..	3237
(b)	%	0.45	0.93	0.42	0.79	0.16	0.32	0.94	0.27	0.2	..	0.25	0.28	-	-

* Includes OCT
.. Unavailable

Taken altogether, the EEC Member States (and Denmark and the Netherlands in particular) donate more than the other DAC members. The multilateral component of their aid volume is higher than the average (especially if France's aid to its OCT is excluded) and technical cooperation constitutes a much bigger element (especially in the field of education, where cultural interests play a particularly large role in French cooperation). Countries with previous colonial links direct their aid predominantly in this direction, but for the past 20 years there has been a fairly general tendency towards enlarging the range of beneficiaries, without necessarily neglecting the pre-existing special relationship. The result of this is that the bilateral aid of Belgium, France, Italy and the UK is concentrated heavily on sub-Saharan Africa. This region also receives the bulk of aid from Denmark, which pays great attention to the poorest countries.

The NGOs play an important role in Germany, Ireland and the Netherlands. These countries seek to inform the public that aid should be of a disinterested nature; they often provide an effective channel for distributing funds which they collect or with which their governments entrust them.

The use made of aid is fairly unchanging, generally speaking. However, there has been a slight fall-off in the Member States' technical cooperation, which used to be heavily funded (especially in the field of education, where cultural interests play a more than average role). We see therefore that in 1970 still, France and the United Kingdom between them sent more than 55 000 aid workers (out of a total of some 100 000) into the field in this sector alone. This figure has now dropped to 15 000 (out of 80 000). There has also been diversification in Third World students' destinations.

Table 12 Use of ODA by sector 1989
(USD '000 000 and as %)

	Member States	EEC	Total EEC	Other DAC	AID	UN	TOTAL
USD '000 000	15351	3324	18675	18846	4923	4281	46725
Education	15.3	7.8	13.9	7.0	4.2	2.5	9.1
Health and popln.	6.0	5.3	5.9	7.2	6.0	24.8	8.2
Other social	10.4	2.6	9.0	6.6	8.0	7.1	7.8
Transport	13.8	17.3	14.4	10.0	13.4	4.0	11.6
Energy and other	8.0	7.0	7.9	6.9	18.9	1.9	8.1
Agriculture	11.5	32.7	15.3	11.1	24.0	27.9	15.7
Industry	6.8	1.4	5.8	4.4	8.2	3.8	5.3
Services	1.5	0.9	1.4	2.0	5.9	1.1	2.1
Multisectoral	4.2		3.5	1.3			1.9
Programmed aid	8.1	17.8	9.8	15.9	1.5		11.4
Debt	1.2		1.0	1.9			1.2
Emerg. food aid	2.9	7.2	3.7	11.2		11.1	7.0
Private or non-spec.	10.3		8.4	14.3	0.9	15.8	10.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : OECD, DAC's report for 1990, Tables 28, 29 and 52

Notes:

1. Totals cover grants and loans on special terms. For the latter, figures refer to commitments (not disbursements).
2. Greece, Luxembourg, Portugal and Spain have not been included among the EEC Member States, since breakdowns for them are not available.
3. For EEC Member States and other countries, bilateral aid only is included.

Table 12 also reveals that the ODA of the EEC combined with its Member States differs little in its thrust from that of the DAC members' aid as a whole.

The Community's share of total world aid and of its Member States' aid is expanding. It remains highly concentrated on the ACP countries, especially those in sub-Saharan Africa, to which the EEC is the second largest donor (after French bilateral aid).

Official development aid, it must be stressed, represents only part of the resources made available to the developing world.
The IBRD and the regional banks lend money borrowed from the capital market. States (or specialized public bodies) cancel debts, offer official loans and guarantee export credits, while the private sector provides bank loans, direct investment and donations via the NGOs. In addition, many operations are combinations of the above, involving a mixture of grants, and loans on special terms or at market rates (largely used for export promotion).

Table 13 Financial flows (in billions of current dollars)

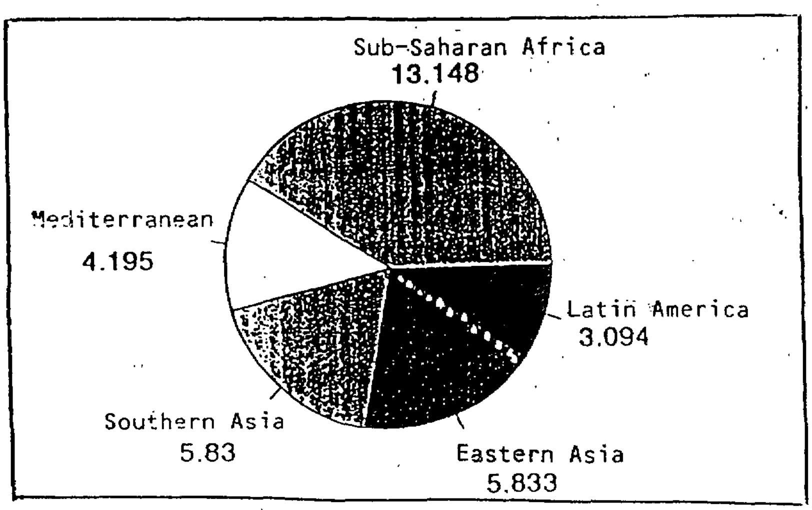
	1980	1989
Official aid		
Bilateral	30.0	40.5
Multilateral	7.8	12.6
Other official inflows		
Bilateral	3.0	9.0
Multilateral	4.8	6.9
Export credits	16.5	1.2
Direct investment	11.2	22.0
Private loans (banks and other)	52.6	14.0
NGO donations	2.4	4.2
Total	128.3	110.4
(in billions of 1987 dollars)	(169.4)	(103.0)
Interest and dividends paid by the d.cs.	- 63.6	- 107.7
IMF loans	2.6	- 3.2
Net financial transfers	67.3	- 0.5

Source : OECD, DAC's report, 1990

Table 13 shows the trend of net totals after deduction of amortization and repayments.
The collapse of private lending may be noted. On the other hand, direct investments, which plunged similarly up until 1985, have since recovered strongly, mainly because of Japanese operations in eastern Asia. The result of these trends is that ODA now represents a larger share of net inflows, rising from 29.5% in 1980 to 48.1% in 1989. The other category which has expanded rapidly is multilateral lending; here, the main agent is the World Bank, through the co-financing it has arranged (totalling USD 13 billion in 1989/90) for operations that it steers and manages.

It remains true, however, that in terms of overall financial flows, official contributions scarcely cover the current costs of past private borrowing. Regional differences in this connection are striking: sub-Saharan Africa and southern Asia enjoy net inward flows, while Latin America, the region with the highest volume of debt, and eastern Asia, are experiencing outward flows.

TOTAL ODA RECEIVED
(net disbursements in 1989)



The Development Assistance Committee has also done a breakdown of ODA by region and by donor, for 1987-88.

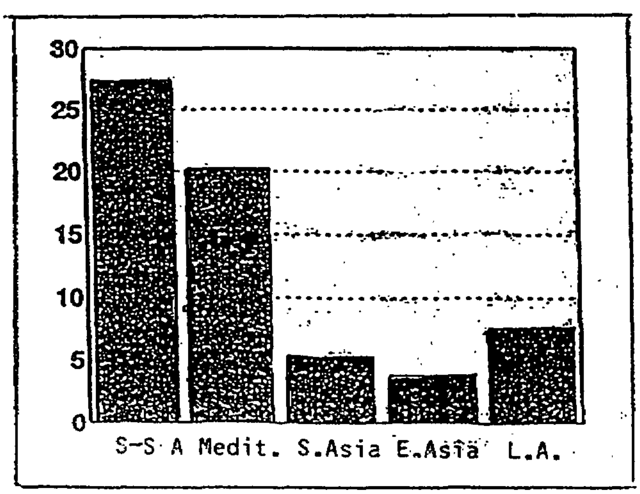
Table 15 Regional breakdown of ODA 1988-89
(in % for each donor, by destination)

	Sub-Saharan Africa	N.Africa and Middle East	Southern Asia	Other Asian	Latin America and Caribbean
Bilateral:					
DAC, total	33.1	16.4	14.3	22.2	14.0
EEC Member States	44.8				
Multilateral:					
EEC	63.2	8.2	10.4	6.7	11.6
UNDP etc.	42.6	10.3	19.3	15.8	12.1
I.F.I.[1]	37.0	1.7	38.1	14.0	9.2
Other	13.6	22.0	10.0	41.9	12.6
Total [2]	34.2	14.3	16.8	21.6	13.1

Source : OECD, DAC's report 1990

Compared with other donors, the EEC obviously concentrates more of its aid on Africa, but a fairly large proportion goes to other regions, especially in the Mediterranean area (Egypt).

TOTAL ODA RECEIVED
(Net payments, USD/inhabitant)



(S-S A = Sub-Saharan Africa; Medit = Mediterranean; S.Asia = Southern Asia; E.Asia = Eastern Asia; L.A. = Latin America.)

[1] International Financing Institutions - AID and special loan windows of regional banks.

[2] The socialist countries included in the total bring down Africa's proportion but boost the eastern Asia total (Vietnam, N.Korea, Mongolia).

Table 16 Breakdown of aid, as % of recipients' GNP

	1980-81	1988-89
All developing countries	1.2	1.3
of which:		
Sub-Saharan Africa	4.2	11.2
North Africa plus Middle East	1.5	1.7
Asia	1.2	1.0
Latin America plus Caribbean	0.5	0.4

Source : OECD, DAC's report, 1990

In 1988-89, the majority of countries in sub-Saharan Africa received development aid amounting to more than 10% of their GNPs (20% in the case of the Sahelian countries). This aid met more than half of their capital expenditure.

1.3.2. THE EFFECTIVENESS OF AID

It is hard to evaluate aid objectively. On the credit side, the progress made in controlling major endemic diseases may be cited, as may infrastructure development, "productivity leaps" (such as the green revolution in southern Asia or development generated by cotton-growing in the Sudanese belt and so on). It is none the less clear that if overall results are compared with the amount of financing committed, the general impression emerging is one of wasted resources.

This can be put down to a number of factors. Where governments are concerned one may note the absence of a clearly-defined development strategy, administrative weaknesses in programming, implementation and monitoring, as well as the fact that regimes, in order to retain control, are obliged to cater to their ever-expanding power bases, by creating jobs and making various hand-outs - a recipe for inefficiency. These governments, moreover, have not succeeded in coordinating the activities of the different funders round a consistent policy. Instead, they have tended to foster competition between them in order to take maximum short-term advantage of the situation. Insufficient consideration has been given to budgetary implications (the cost of counterpart funds, recurrent costs), to the point where there are now many projects blocked because the counterpart funds have not been forthcoming.

The development strategies chosen, often, we admit, on the advice of the leading donors, have not always been pursued successfully. In the fifties and sixties, the thinking at the time placed emphasis on the central role of the state and on import substitution industries; the strategy still held sway at the beginning of the eighties, but it then started to produce diminishing returns.

While some countries did manage to complete the whole process and thereby turn their industries, which had initially been geared to the domestic market, towards a key sector in export production, the major part of the developing world ended up with whole sections of their industrial machinery not only non-competitive but also placing an intolerable burden on their entire economy.

The fact is that these over-ambitious enterprises, with their low profitability, forced countries to follow a policy of transfers, via subsidies or tax exemption, to an industrial sector that was moving further into the red and leading to permanent distortions in the allocation of domestic resources. The closing-up of the economy and protection of the home market - two inevitable corollaries of such policy - resulted in goods becoming less competitive.

A further consequence was the marginalization of the agricultural sector, despite the fact that for most of the developing world's population, it constitutes the main source of revenue. It had been assumed that agriculture was incapable of leading the modernization process or of (generating surpluses) sustaining a process of industrialization. Even the success stories - the green revolution in India for example - were affected by this ideological view, according to which agriculture was pushed into a marginal role in overall development policy.

Cooperation policies were, in reality, directly influenced by external factors such as the international crisis, or internal factors such as the self-interest of the donor countries. The Cold War, too, was particularly damaging, in that international cooperation came to be dominated at least as much by the wish to keep countries in one or other of the camps as by the desire to promote development.

This situation explains at least partially the political nature of some of the regimes and the lateness with which democratization is being embarked on in many developing countries today.

The practice of tying aid, commonly adopted by bilateral cooperation agencies, led to large cost over-runs and sometimes compromised their efforts; the goal of cooperation often became mixed with a desire to promote national interests.

As for the international agencies, they were more concerned with promoting their image than with bringing critical support to bear on weak or muddled government policy. All this, on the global level, has resulted in an aid situation that is contradictory and rarely coordinated or consistent. The recipient countries tolerate it, or even provoke it in many cases, in order to win support for their latest interest.

Things are changing rapidly, however, because of the changes in the political context (collapse of the Eastern bloc) and the economic one (debt crisis, return to financial orthodoxy) as well as through the experience that has been gained. Commitments made to untie aid, to ensure that donors collaborate, to adopt consistent policy in the conception, follow-up and evaluation of programmes, are seen more and more clearly as pre-requisites for effective aid.

1.4. PROSPECTS AND MAIN EMERGING TRENDS

1.4.1. THE INTERNATIONAL CONTEXT

1.4.1.1. STRUCTURAL CHANGES IN THE WORLD ECONOMY

According to a well-known correlation, the foremost effect of growth in the industrialized countries is an increase in the demand for Third World products. A second, though less striking, effect is that better prices are paid for them.

This way of transmitting the effects of growth implies that openness to trade is a more important factor than actual growth. According to World Bank estimates, for example,[1] a 1% rise in the industrialized countries' economic growth-rate leads to a rise of 0.7% in the growth of the developing countries as a whole, while a 1% rise in world trade has a 1.3% effect on their growth-rate.

As this rule does not apply equally to all the developing countries, because of their differing structural situations, it is only valid in global terms. However, these parameters are beginning to change, under the effect of structural changes in the world economic system.

(a) Production is steadily becoming more "intellectual", i.e., an increasing part of its total value is composed of inputs requiring highly-skilled labour. Another way of putting this is to say that goods now contain larger amounts of services. As a result, the demand for raw materials will slow down. The same tendency is in evidence for energy and food products, where the income elasticity of demand is less than one.

The effect of these changes on the value of goods is strengthened by long-term changes in relative prices; because of interruptions and temporary setbacks, prices of raw materials are declining in comparison with those of manufactures (at least as measured). The implication of this for the developing countries is that the ones best placed to benefit from an improvement in the international climate are those which have succeeded in switching their exports to industrial products. According to World Bank calculations, sub-Saharan Africa is the only region where the effect of trade growth on production is less than one.

[1] Global Economic Prospects and the Developing Countries.

(b) A second factor is connected with the increasing internationalization of economies, not only on the financial level but also as far as productive systems are concerned. The big multinational enterprises are now theatres for action on a world-wide scale. A UN analysis, for example, shows that already, more than 30% of the exports of the major industrial countries are involved in intra-firm trade. Technical progress in communications and information handling, by reducing the costs associated with large organizations, will accentuate not only their tendency to strategic globalization but also the decentralization of their activities, depending on the specific conditions in particular localities.

In an open world, where free trade is guaranteed, production tends to settle where total costs are lowest. This is either where the cost of the labour element (based on both wages and productivity) is lowest or where the market is near at hand (not only to reduce transport costs but also to have direct contact with that market, if this is necessary).

For the multinationals, in fact, capital costs are the same everywhere, once the technical infrastructure and services are adequate. Very advanced production can be set up in countries which are not advanced (for example, the manufacture of the most up-to-date microchips in Thailand). Such a system cannot be said to represent a true transfer of technology, of course, since the host country is certainly not capable of designing and perfecting what is being produced. Nevertheless, it does bring benefits, because of the training opportunities afforded to local staff - even more significant when the time comes for the best-qualified to take over from expatriate staff.

More specialization is also occurring, and this provides development opportunities for small businesses; the proof of this is seen in the growth of intra-branch trade and in subcontracting in international trade.

(c) A third tendency concerns the job market. For the reasons just mentioned, there is a rapidly increasing demand for managers and qualified staff. This has to a large extent been met through improving educational standards in the industrialized countries. Given that business is becoming internationalized, in order to fill posts, staff are transferred not only between industrialized countries, but between them and the developing countries. However, future labour shortages are still likely. In general, in the developing countries, these may result from the supply of people with certain qualifications still not meeting the demand, or from the local workforce becoming too expensive. But this is unlikely to produce many changes in present migratory flows. The decentralization of industry itself will not be enough to solve employment problems in countries from which workers are emigrating.

(d) Rises in interest rates currently seem to be another structural trend. Since 1982, these have been 4% higher than inflation rates in the leading industrialized countries (the average over the previous 20 years was only 2% above). This rise has had a serious effect on the developing countries, either directly (for loans with floating interest rates) or in the longer term, because of a bigger debt-servicing bill, to be paid in foreign currency hence damaging to growth. Some studies indicate that a rise of 1% in real interest rates reduces the growth rate of a developing country by 0.2 percentage points.[1]

Financial flows are also affected; one of the main explanations of the high level of real interest rates in the eighties is that savings world-wide are insufficient to meet the demand for capital. This may well hinder money from flowing into the developing countries.

1.4.1.2. POSSIBLE TRENDS OF OFFICIAL DEVELOPMENT ASSISTANCE AND DIRECT INVESTMENTS

The shortage of savings can be seen particularly clearly if we look at public finances. The current deficit of the Group of Seven countries (who together account for more than 60% of the world GDP), amounted to 3.2% of GNP in 1980-89, against 1.7% in 1970-79 (or a rise of USD 180 billion in quantitative terms). Official development assistance has naturally been affected by efforts to reduce this deficit which explains why the US contribution has dropped.

Support for the Eastern bloc countries will have aless-marked effect that is not yet quantifiable. It will be hard to increase real official aid for countries in the South, however, even if it does not have to be decreased.

Direct investment is in a different category and is chiefly influenced by conditions at the receiving end, though what is happening in the industrialized countries providing it will also have some effect. Financial flows to eastern Europe would increase exports and hence growth, while high interest rates would not have a compensatory effect on investment. But in this case, the effect of competition would be very small.

For the third form of financing, loans at market rates would become more expensive. It has been observed however that since 1982, the private sector plays virtually no part. The main cause of this is risk assessment rather than lack of resources. Again, the rise in interest rates has had only an indirect impact, in that risk has become greater because of the higher debt-service. For public institutions, however, which obtain their money at market rates (e.g. the World Bank), borrowing has become more expensive and so, therefore, have its lending rates.

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[1] IBRD + ref.

Another factor world-wide is the predictable worsening of the US budget deficit. At current prices, its GNP represents more than 25% of the gross world product, and were its budget needs to rise from 3% to 4% of its GNP, the new money required would alone be USD 50 billion - more than total ODA. This set of forecasts, in a context of restrictive monetary policy and taking into account the situation of many private financial institutions raising their own capital, which have been seriously hit by bad debts, suggest that today, real interest rates should be maintained at higher levels than in the past.

1.4.2. THE PRINCIPAL DOMESTIC CONSTRAINTS IN THE DEVELOPING COUNTRIES

1.4.2.1. DEMOGRAPHIC TRENDS

The disparities to which attention has been drawn in the previous sections need to be borne in mind. Starting points - and hence problems - are not the same from one group of countries to another. There is not just one Third World, there are several. Any general discussion must at the very least make broad distinctions between the major regions.

Demographic growth heads the list of problem areas. There are two distinct aspects to it: the medium-term outlook, which is relevant to education and employment, and the prospects for the longer term, which relate to demographic policy itself.

Let us consider the most worrying case: sub-Saharan Africa. According to a recent ILO report, 75% of the working population were still in agriculture in 1980, providing 31% of the GDP. Because of the foreign capital in other branches, people engaged in agriculture received an average income that was less than half of the total population's or less than 20% of the non-agricultural population's. As the number employed in agriculture has fallen since 1980 and the share of agriculture in the GDP has been maintained, this last figure has risen to around 25%.

It is estimated that today 15% - 20% of the working population receives a salary, at least half of them from employment in the public services. The modern sector, in other words, provides less than 20% of employment, in general. This starting position must be linked with demography; if the working population is increasing by 3% a year (total population increase amounting to 3.2%), the modern sector needs to expand by more than 15% a year to absorb the increase. If, on the other hand, we assume that jobs in the public service sector remain roughly at the same level through structural adjustment reforms, the remaining part of the modern sector must increase the number of jobs it can offer by at least 30% a year. The impossibility of reaching such targets suggests that in the future, most young people will have to look to agriculture or the informal sector for their work and livelihood. The phenomenon of urban migration in Africa is also very marked; the population of the towns is growing more rapidly than the job market there (over 80% of private employment in the towns is in the service sector, the added value of which is only growing at the same pace as incomes in general).

A similar connection exists in the large Asian countries, where the agricultural population accounts for half of the working population, producing 25% of the GDP. Demographic and urban growth rates are lower, however, and the secondary sector is larger. Nevertheless, the rural world will also have to provide millions of new jobs each year. Suitable policy on prices and agricultural productivity are needed as much there as in Africa.

In Latin America, where rates of urbanization are very close to those of the industrialized world, most of the poor live in shantytowns in the large cities, which means that priority must be given to managing urban resources.

While the problems of urban management are not on the same scale as in Latin America, they crop up again in large Asian cities, and more dramatically, in those now developing in Africa, where poor public service management renders them even more acute.

The history of recent decades has clearly shown up the fragility of ecological balances and the risk of certain natural resources being exhausted; this underscores the interdependencies that exist, both geographically and in time, in environmental management. Problems like deforestation, soil and water management, and pollution control, must for the most part be tackled through government spending, with the population directly affected bearing some of the cost. The former, however, lack the necessary resources, while the latter, beset by today's poverty, are unlikely to worry about the distant future. This means that the efforts required will have, primarily, to be made by the industrialized world, where the means exist, where the discount rate for the future is lower and where awareness of ecological interdependence is developing.

The long-term aspect is linked to future demographic trends. It is well-known that mortality rates fall off first, then with a delay of two or three generations, depending on income evolution, the urbanization rate and women's education, falls in the birth rate begin the transition to lower population growth. The trend may be seen everywhere, though the curves are different (e.g. in eastern Asia the reproductive rate fell from 6.2 to 2.7 between 1965 and 1989; in southern Asia, from 6.3 to 4.4; in Latin America from 5.8 to 3.5). It is only in sub-Saharan Africa that the rate has remained at the remarkably high level of 6.6. When this is coupled with a drop in infant mortality rates, an accelerated population growth is predictable. Here effective population policy may be the only available tool for improving standards of living in the long term. Without it, Africa will remain trapped in a vicious circle where low incomes beget high birth rates and demographic growth hinders the growth of income. As an illustration, if population policy fails to be effective in Nigeria, the only uncertainty will be whether its population (currently 115 million) will reach 250 million or 450 million by the year 2050. It must also be stressed that although the classical link between high birth rates and poverty continues to hold good for the major statistical sets, this does not imply that the situation is inevitable. Regardless of income levels, attempts to provide schooling for girls and to change societal attitudes have proved successful in reversing demographic trends.

1.4.2.2. SHORTFALL IN FINANCIAL RESOURCES

In the medium term again, the other problem confronting most of the developing countries is their external financing and/or import capacity. We emphasized earlier that this was already a crucial factor in the eighties. Debt charges soak up the trade surplus, which means that a country's capital expenditure has to be met out of its savings. After the severe drop in the level of imports in recent years, many things are in short supply. Capital goods, in particular, are nearly all imported, and before any recovery in growth can happen, higher levels of capital expenditure are needed. Production growth, in other words, is usually conditional on the ability to pay for imports.

This constraint will be especially hard on most African, and some Latin American, countries. In the case of Africa, to which flows of private capital are small, official aid has to provide most of the financing. It will therefore be in short supply, and development opportunities will depend on its effective use. For the other regions, increases in financial resources, whether resulting from lower debt-servicing, higher direct investment or a growing demand and improved access for their exports, will produce two results: countries will be able to import more from the industrialized countries and their domestic growth will be boosted.

The rich countries' commercial and financial policy will therefore constitute the key to development support. Such policy should also not ignore the fact that by opening up to imports, a corresponding expansion in exports will be achieved. For the developing world, a smaller share of a rapidly-expanding market is preferable to maintaining the same share of a stagnating one.

1.5. POLICIES FOR INTERNAL REFORM

If we look at internal policies, we again see that the situation varies according to the time-scale we are using.

1.5.1. SHORT-TERM POLICIES : structural adjustment and political stability

Right at the moment, most developing countries are still engaged in the stabilization and structural adjustment phase. If one fact emerges clearly fromthe past ten years it is that passage through this phase is unavoidable: restoring macroeconomic balances is a pre-condition for any recovery in growth. This process may well have high social costs, calling for targetted operations to limit the damage. It should however be remembered that the cost of doing nothing is usually even higher and that organized resistance to change usually springs from the privileged classes.

The political aspects cannot be ignored. In poor countries, governments are very vulnerable and a coup d'état does not only result from poor handling of the economy. Moves towards greater democracy, appearing on all sides,are not yet strong enough to prevent small groups surrounding the leadership from ousting those whose policies clash with their own interests. Donor support for reform policy should include an element of persuasion to ensure continuity in government action and make it more credible. Political stability and private sector confidence - be it in locally-owned or foreign businesses - are in fact vital, if the desired results are to be obtained.

1.5.2. MEDIUM-TERM POLICIES : education and democratization

As regards the medium term, priority must be given to improving access to education. Studies conducted over the past thirty years are unanimous in showing that the key to rapid growth is increased production of those factors that incorporate technical advances. This applies equally to the developing countries, once the necessary riders have been added. It was mentioned earlier that direct investments are an important - though not the only - vector for the learning process in management and technical fields, in the narrow sense of the word.

The problem of local businesses is quite different. Industrial research in the advanced countries is generally of little interest to them. Product research, for example, is addressed to different markets and assumes that different inputs are available. Research on production processes assumes that different price relationships between inputs exist. Technologies that are suited to other local conditions cannot generally be imported as they are, but need to be adapted. In any case, they are only effective if local staff can learn and handle them to meet production and management needs. This obviously depends on the educational level of the firm's employees, and also on the existence of research groups collaborating with them on the necessary adaptations. It is also important for training to include some general features: a research worker or a technician will not make much of an impact if he or she remains isolated. This is the reason why countries like India or Brazil have often been able to provide better solutions for equipment and technical assistance than European countries.

Studies covering 60 countries conducted in the period 1965-87 reveal the two factors most closely correlated to economic growth. They are: educational level and degree of distortion in the price system.[1]

According to the same figures, it is post-primary education which plays the most significant role in boosting the economy. In sub-Saharan Africa, 53% of the population over the age of 15 were still illiterate in 1985, as against 40% in Asia and 17% in Latin America (Social Indicators of Development 1989). There can be no doubt that the greatest effort is called for in Africa, and it is there too that potential benefits are greatest.

The level of women's education is also closely correlated with other indicators of social well-being. It is interesting to note the high statistical correlation between educational levels and degree of civil liberties and political freedom. Again, it is countries with a more democratic power structure which have been most successful in instituting the necessary austerity measures and in persevering with them even when they prove unpopular.

1.5.3. THE DOMAINS OF STATE INTERVENTION

Another priority relates to the function of the state. Current trends towards the privatization of certain activities should not hide the fact that the state alone can act in domains where social advantages are more evident than private ones and where the market cannot therefore provide the necessary services. As already mentioned, this is the case for education and the environment, but it also applies to the infrastructure and many public services - health, energy, transport, communications or rural extension work. In addition, the legal and institutional framework fixed by the state affects all private activity.

Even when states pull out of production and the private sector is in theory capable of replacing them effectively they still have to intervene in a vast field; their management capability must therefore be regarded as one of the rarest resources in their economy. It has become apparent that if states become over-ambitious, they run things badly and are unable to direct economic development in all its details. In Africa and Latin America, their capacity to manage their own domain is ofen inadequate. The success of future strategies will depend on improvements in the operations of government departments, so that they can handle reform arrangements, provide essential services and reduce business costs for the private sector.

Recent years have taught us that successful development strategies have been based not only on creating opportunities for foreign trade but also on implementing measures to help production to be really competitive. This implies sensible exchange rates, relative costs fairly close to those of world markets and above all, effective support policy to build up a competitive and dynamic environment for local businesses, rather than a suffocating bureaucracy. The countries which are the most successful today are those which have followed this type of policy for a long time.

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[1] The Challenge of Development, Table 2.4 (IBRD).

1.6. POLICIES TO SUPPORT DEVELOPMENT

Development cooperation policies go far beyond the realm of aid. The industrilaized world's most effective activities relate first and foremost to the general economic climate it can help to create. A world that is open rather than split up into protectionist blocs, coupled with lower non-tariff barriers are the sine qua non for absorbing developing countries into the machinery of world trade, in the broadest sense. Emphasis has been placed on the fact that their growth will go on being linked to their potential to import and that the latter will depend on the penetration of their industrial exports. However they can only achieve this if their internal economic structures are sufficiently competitive.

For the whole developing world, with the single exception of Africa, the old slogan "Better trade than aid" has again become pertinent.

Where Africa is concerned, however, we have seen that not only has it failed to create an export industry, but that its share of the commodities market has slumped. It is currently the region of the world taking least advantage of the industrialized world's growing demand and improved access. Primarily, the future of these countries depends on their domestic policies. On the external level, their foreign exchange requirements cannot be satisfied either by improvements in their exports or by flows of private capital: they must, to a large extent, continue depending on official aid. This brings us to the heart of the matter. The industrialized world will still have to concentrate its aid on this continent and ensure its allocation, as a priority, to encouraging better policies - with all that this implies as regards changes in the systems of political power and social attitudes. This priority, more and more widely recognized, finds its practical application in lending support to governments in setting up reform programmes aimed, ultimately, at creating viable and competitive economic structures. This raises the question of conditionality and of donor coordination. It is clear, in fact, that any policy to introduce conditionality will only work if prior agreement to improve it is reached among the various donors.

From this point of view, official aid is a rare factor which comes nowhere near meeting requirements. These arise in domains where financial rates of return are zero, and where economic and social returns, even if potentially high, can only be obtained in the long term. At the present stage, there is no way in which grants can be avoided and the level of their effectiveness will be crucial. But grants should be linked not only to the creation of viable economic structures on which genuine development can be founded, but also to the installation of truly democratic political systems.

It is therefore a matter of directing grants of aid towards reforms the implementing of which will produce true human development.

2. AN INTENSIFIED COOPERATION POLICY

2.1. NEW INTERDEPENDENCIES AND SOLIDARITY WITH THE SOUTH

By reason of its history and its share of the world economy, the Community, since its inception, has played an important global role in management of the international economic system. This role is becoming even more prominent in today's context.

Ever since the former colonial countries gained their independence, cooperation with developing countries has been one of the most important constants in the Community's and its Member States' foreign policy. But the profound changes that are shaking the internationalsystem in Europe, and the world-wide repercussions of these, directly affect the political and structural framework within which the Community's cooperation policy is exercised.

The geopolitical map which is currently being redrawn has so many new features that the question of interdependence is becoming increasingly complex; uncertainty about the workings of the international system is growing.

In recent years, moreover, the general public's interest in development cooperation policy has slackened considerably. The spectacle of fratricidal war or corruption in some of the countries of the South has probably been just as responsible for this as the indifferent results all too often registered by cooperation policy.

Cooperation policy itself and the financial commitments for carrying it out have not been lacking. But the remarks made by certain industrialized countries in public have revealed a degree of lassitude which might eventually cause aid volumes to stand still if not actually to diminish.

Several of our partners feel that there is a risk of the Community turning inwards on itself, because of the success of its efforts at integration. They fear that less attention and aid than hitherto will be made available by a Community increasingly concerned with its own development and providing growing volumes of aid for its central and eastern European neighbours.

In the years to come, there will undoubtedly be strong objective pressures on the Community Member States and on other industrialized countries that affect their capacity for financing. One of these will be a demand for capital in connection with the adjustments and reforms necessitated by greater trade liberalization in the industrialized countries themselves. (The problems encountered in the Uruguay Roand are another sign of the difficulties that exist in operating trade concessions in favour of the developing countries)./

Traditional forms of interdependence, which have prevailed in North-South relations for many years and on which the claims of the "New International Economic Order" were based have been substantially altered or weakened in the last few years.

With the end of the Cold War, the countries of the South have lost their role as "relay stations" in the super powers' confrontation, and with it, the massive economic and military aid which was poured into them.

In supplying the North with raw materials (leaving aside oil) the South no longer plays the same strategic role it did in the past. As trade outlets for industrial products, too, the developing world's markets, especially in Africa, are no longer as important to the North.

Progress in recent years in dealing with the Third World Debt has, to a large degree, reduced the risk of a collapse (which appeared a possibility in the beginning of the eighties) of the international banking system.

But the interdependence of the industrialized and the developing world has revealed itself in new and striking forms in the last few years, making clearer what is at stake for the international community.

To start with, the first factor of interdependence resides in the fact that, in almost all the sectors crucial to economic development, in the North and South alike, the structural framework for competition will henceforth be one and the same for the whole world. Global financing has become a fact of life for the authorities and financiers in every country. In all the leading sectors, thanks to the use of new technologies - electronics, telecommunications, biotechnology, new materials, etc. - competition operates at the global level.

The rules of competition applicable in all the world's markets make the phenomena of economic polarization and concentration of power inevitable. If allowed to run wild or get out of hand, these can jeopardize the opportunities for development from within of the countries with the weakest competitive advantages. It is essential that such tendencies towards structural imbalance in economic power be taken into account, otherwise the switch to free market economies will simply reinforce the vicious circles and imbalances that characterize the social and economic systems currently in place.

To be considered also are other aspects of the interdependence of the Community and the countries of the South which are bound to assume growing importance in the next decade in the management of the system of international relations and the development of the world economy.

One such aspect is the problem of population already referred to. Growth in world population overall, which is set to rise from 5.3 billion in 1989 to about 10 billion as 2050 approaches, coupled with the dramatic demographic surge in the developing world (where 94 out of every 100 births occur) constitute a challenge for the whole international community, especially because of the pressure that these trends will exert on natural resources and ecological balances.

Large numbers of people from the developing world have migrated to our territories for economic or political reasons. The threat is that there could be a spillover of the violent demands, politically or religiously inspired, being witnessed in some developing countries. Thus, a feeling of anxiety prevails in our own society that the instability and unrest besetting some of the developing countries could have repercussions in Europe.

The dangers of ecological balances being upset in the developing countries through under-development is increasingly being perceived as a threat to the whole of humanity and this explains why the environment is now firmly on the agenda, in North-South cooperation.

Generally speaking, whether we are considering damage to ecological balances, migratory pressures, an epidemic such as AIDS, or drugs, all of which are phenomena linked in some way with poverty and confusion in developing countries, as well as in our own societies, signs of interdependence are now often viewed as a threat to ourselves.

The causes of these phenomona are complex, but it is clear that their common denominator in nearly all cases is that they originate in under-development, in a major part of the world.

The upsurge in such pressures calls for even greater efforts on the part of the Community to prevent the appearance of irreperable breaks or antagonisms, for the construction of Europe can only continue within a stable international framework. This does not simply mean striving to overcome the effects of pressures on and threats to our environment; it also means acting to enlarge the economic space inside which the Community's own economic development can take place.

However, it would be unwise to give the impression that the thrust of cooperation policy is towards safeguarding the economic security and dynamism of a privileged section of the international community against threats connected with instability among other members of this same community.

Solidarity is one of the key values on which the European edifice was built and it is inconceivable for it not to be exercised as effectivley outside as inside the Community, with only lip service being paid to it beyond its own frontiers.

In the same way, the democratic principles on which our civil society is based should cause us to reject a world where oppression and loss of freedom - as often the cause as the effect of under-development - continue to exist.

This array of vital interests, based on political, economic, and humanitarian considerations requires that a Community-level plan for development cooperation strategy be defined.

This strategy must reflect the Community's progress towards integration - the single market, economic and monetary union and political union - which give it a leading role on the world stage today. The heavy responsibilities incumbent on it are going to be still more important in years to come. The objectives of this strategy are of two kinds:

(a) global objectives, by which it will attempt to meet the challenges already mentioned - the environment, security requirements - posed by the various forms of interdependence;

(b) objectives connected with geography, which will call for changes in the instruments and volumes of contributions, according to the part of the world in which cooperation activities are taking place.

Two other features of the cooperation policy will be:

(i) a global approach covering Community activities in multinational organizations;

(ii) a bilateral approach, which by means of a set of instruments such as financial and technical assistance, trade, economic cooperation, etc., (policy mix), will provide support for countries' own development strategies.

It is naturally difficult in practice to draw these distinctions; certain activities conducted at the world level, like major trade negotiations, will have a direct influence on cooperation policy conducted in this or that part of the globe, whereas other activities, particularly in connection with the environment, may, while being carried out in a specific country, bear directly on global objectives.

This having been said, an attempt will be made first of all to frame the global aspects of Community cooperation policy, after which the broad themes of cooperation strategy intended to be applied more specifically to the different developing countries will be defined.

2.2. GLOBAL APPROACH : the guidelines

The first thing to notice is the gap between the Community's importance as an export market for the developing countries and as a donor or official development assistance on one hand and its still modest role in the management of the international economic system on the other.

The Community, in fact, imports the same volume of developing world products as the US and twice as much as Japan. Together with its Member States it provides much more official development assistance (ODA) than the US and Japan combined. In the Bretton Woods institutions, if it totals up the votes of its Member States, it represents 29% of the IMF (against 19% for the US and 4.5% for Japan) and the same figure for the World Bank (where the US has 15% and Japan 9%).

However, by not always acting together in these institutions, the Member States and the Community frequently pass the initiative to the US. At the same time, Japan is intending to play a larger role in them, firstly in financing and guiding Third World development strategies and secondly, in managing the international economic system.

On the other hand, the Community is playing an increasingly significant role in some international forums where discussions take place on the major themes relating to international economic cooperation (summits of Western leaders), to development (UNCTAD) and to the environment (UNCED).

When in these settings, to meet the expectations of its partners in the South, the Community should promulgate its own ideas on world development; these should be compatible with its values and interests and should ensure that the developing countries are given a fair and effective role when new balances are being struck.

The first pillar of the new order, which should be the business of the UN, is respect for international law and abandonment of the use of force for solving conflicts.

Encouraging democracy and respect for human rights in the developing countries paves the way for peaceful behaviour and respect for international law, both essential to the development process.

The prevention of conflicts can - and indeed must - lead to arms reduction, so that resources can be switched to development targets, both in developing countries and the industrialized world.

A second pillar of the new international order should, as far as the Community is concerned, consist of the South's development.

The third pillar must be management of the world's environment. The UNCED summit (Rio, June 1992) should lay the foundations for this.

The first pillar falls within common foreign and security policy and the third within international cooperation on environmental matters. Development in its wider meaning however is most directly influenced by the Community's external economic policy, especially in the three aspects of international economic cooperation, trade and financial flows (which includes ODA).

2.2.1. INTERNATIONAL ECONOMIC COOPERATION *

As mentioned at the beginning of this chapter, on one hand the interdependence of various economies is strengthened as trade develops and as international capital markets become integrated, while on the other hand the relative weight of the various actors alters as internal transformations occur (e.g. European integration, Japanese growth, emergence of newly industrialized countries in Asia, opening up of Latin America, the entry of the former Communist countries in the multilateral economic system).

Today, there is an increasing tendency for economic cooperation to go beyond the frontiers of monetary and budgetary policy. Firstly, within the context of its surveillance mission, the IMF, with the support of the World Bank, has enlarged its field of action to encompass a whole array of structural elements, which sometimes have a crucial bearing on the conduct and effectiveness of macroeconomic policies. Secondly, the major industrialized countries have reached agreement on matters such as the action to be taken concerning Poland's debt and the joint strategy they should use towards Brazil, the world's largest debtor.

But the cooperation achieved among the Group of Seven members, who are de facto leaders of the world economy, as well as the multilateral surveillance exercised by the IMF, fail to produce satisfactory results from the point of view of the developing countries.

1. The developing countries are more or less excluded from international economic cooperation; they feel its effects, both bad and good, and find that their own policies are dictated by the IMF and the World Bank. To date, they have only played a very minor role in drafting the policies which concern them.

2. The results obtained in terms of world growth and tranfer of resources from the North to the South are insufficient to sustain the reforms taking place in the developing countries, especially in the highly-indebted ones of Latin America and Africa.

* The expression "international economic cooperation" in use in the G7 and the IMF refers to cooperation on macroeconomic and structural policies. It must therefore be distinguished from "economic cooperation", one of the aspects of Community development policy.

Where financial flows from the North to the South are concerned, although there have been recent improvements, they are still inadequate because of the savings deficit in the industrialized world, in particular in the US where the budget deficit this year is equivalent to the GDP of all of southern Asia.

The European Community, for its part, has been making a solid contribution to world growth since 1985.

Internal growth factors within the European Community have a tendency, in fact, to reinforce each other; the creation of the internal market (through its effects on efficiency and resource allocation), economic and monetary union (which will emphasize price stability and ensure the coordination of budgetary policies) and the strengthening of the economic and social fabric (which increases the potential for growth) have all resulted in structural improvements in the Community's economy.

Can the Community do more?

First of all, the Community is well-placed to play an expanding role in international economic cooperation and can contribute two major trump cards: firstly, its economic and political weight, and secondly, its special experience in relation to integration and coordination, especially their monetary aspects.

But in order to play this role, it has to go further along the road of economic and monetary union and its activities within the Group of Seven and the IMF/World Bank must be coordinated so as to reflect this progress.

Despite its present institutional handicap, the Community must attempt to attain three objectives.

(i) It must convince its partners, the US and Japan, that the structural imbalances in their respective economies have to be corrected, which implies the reabsorption of the budget deficit, clearing the way for an increase in domestic savings, in the US, and the opening up of its economy to inputs of manufactures and services, in the case of Japan.

(ii) It must see to it that the developing countries play a part in the management of the world economy, as they progress towards fuller integration in the international economic system (GATT, the IMF/World Bank).

(iii) It must promote regional integration among the developing countries with more vigour, so that their economies become more competitive and so that they are better prepared to enter fully into the world economy.

2.2.2. THE MULTILATERAL FRAMEWORK OF DEVELOPING COUNTRIES' FOREIGN TRADE

For most of the developing countries, foreign trade constitutes the largest source of their external financing. It is vastly more important than official development aid in helping the development process. As a result, access to the markets of the industrial world is a pre-condition for their future development.

Trade with the developing countries must move on from a mere inter-industrial exchange (their raw materials for our manufactures) which was the feature of trade in the colonial epoch, and which now seems to have a limited role. This inter-industrial type of trade gives some scope, it is true, for the comparative advantages of the developing countries (tropical, energy and mineral products; extensive agricultural and livestock farming); but intra-industrial trade (a straight exchange of manufactured goods) based on on-the-spot processing of commodities or an abundant labour supply, must expand along with development. It is in the interest of the industrialized countries to accept and encourage this evolution, which represents a better allocation - from both the economic and the environmental standpoints - of resources on the world level, even though this change may not be brought about without some costs.

The Community gives the developing countries access to the biggest market in the world. Its Third World imports are similar in volume to those of the US. Although they are growing rapidly, manufactures account for a smaller share of the total in Europe than in the US, however.

The present trade policy of the industrialized countries generally, which includes the Community, as regards imports from the developing countries, poses two problems for North-South trade: protectionism levelled against the developing countries, on one hand, and the formation of regional blocs on the other.

(i) While proclaiming their readiness to open their respective markets via unilateral preferences (either generalized or regional), the industrialized world has, in practice, maintained substantial barriers to developing countries' exports (quantitative restrictions on agricultural products, textiles, shoes, etc.; or tariff peaks and escalation).

For their part the developing countries have gone along with this policy and have tried to take advantage of unilateral preferential systems operated by industrialized countries, without liberalizing their own trade practices. The result has been that they have often not been sufficiently competitive to make the most of the preferences granted them and they have deprived themselves of a negotiating tool in multilateral discussion, the only sure route towards real and permanent access to the markets of the industrialized world.

(ii) The regional preferences granted by the Community (to Mediterranean, eastern European and ACP countries) and the US (the CBI, NAFTA and Enterprise for the Americas) tend to strengthen the integration of the developing countries round the dominant poles. Japan, without resorting to regional trade preference measures, uses its efforts to strengthen integration round the south-eastern rim of Asia, via investments and the technology used in its enterprises.

Consequently, the risk that regionalization will drift towards the formation of trading blocs can no longer be ignored.

In order to correct these two tendencies, the Community must see to it that the multilateral trade system is strengthened; this could be achieved by fully involving the developing countries in GATT (imposing rights as well as duties on them). Parallel with current attempts at regional liberalization, the Community should also strive for progress with multilateral liberalization moves.

Trade preferences, which will gradually lose their importance and their justification for the major part of the developing world, once it benefits from and takes part in the progress towards multilateral liberalization, should therefore be reserved solely for the assistance of the less developed countries.

The Uruguay Round today offers an exceptional opportunity for improving North-South trade and consolidating the move towards trade liberalization embarked on by a growing number of developing countries in their own interest. It is far and away more important for the countries of South-East Asia and Latin America than the opportunities provided under bilateral instruments (aid and generalized preferences).

2.2.3. FINANCIAL FLOWS TO THE DEVELOPING COUNTRIES

It is certainly vital for the economic policies of the developing countries to aim at producing growth largely through mobilizing their potential internal resources. But inflows of foreign capital, in the form of aid, loans, or investments can make significant contributions to relaunching their economies and can provide support in the difficult stages of redirecting economic policy and implementing structural reforms, in which many countries are now engaged.

After declining continuously between 1980 and 1987, when they reached especially low levels, net flows of resources to the developing countries have improved in recent years (see 1.1.4).

The flows nevertheless remain far below the needs of a large number of countries.

(a) Encouraging fairer sharing of the aid burden and more effective use of it

In 1990, official development assistance from the member countries of the DAC reached USD 54 billion (in nominal terms), representing 0.35% of their GDP (and still substantially below the 0.7% target to which most of them are committed). Any increase should therefore come first and foremost from those countries whose volume of ODA is below the mark.

The Community for its part allocates almost 0.5% of its GNP to aid for the developing world, thereby providing more than 40% of the aid they receive.

This contribution is considerably higher than that of the other major donors - the US and Japan - which contribute 0.18% and 0.32% of their GNP respectively.

Given the weight of its contributions to the developing countries, the Community could legitimately request its two main partners to take on a bigger share of the aid burden.

It could also encourage certain other countries to make a greater effort in providing development aid.

Several countries, the newly-industrialized or the more successful developing ones, adopt policies which are increasingly affecting - for better or for worse - other developing countries.

To date, however, these countries' contributions to ODA, or even to the debate on development issues, have remained very small. Taiwan devotes a mere 0.02% of its GNP to development aid, while Greece and Portugal, with much lower GNPs, manage to set aside almost four times as much.

The newly industrialized countries and the better-off developing countries could and should give more aid, quantitatively and qualitatively, to less successful developing countries.

These countries and the industrialized world could get together to work out aid policy that is more systematic and formalized.

In some cases, for example, more practical and specific triangular aid arrangements could be worked out between the industrialized countries, the developing countries and the more advanced among the latter. The last group could provide their less successful partners with certain benefits, for which the developed countries' aid would provide the counterpart.

Development cooperation provided by the eastern bloc countries has disappeared suddenly from the international scene; at the same time, the crisis they are facing has meant that their foreign trade has declined. The Community could try to find ways of helping them to recover their capacity for cooperation, particularly where technical cooperation is concerned; its good relations with both the developing and the eastern bloc countries, could, for example, be put to use to encourage trade between the two groups. (The possibilities for triangular operations should also be studied).

In any case, the Community would be a more convincing advocate of a new sharing-out of responsibilities if it were to show itself ready to step up its own efforts (and especially those of some of its Member States) to assist the developing world.

Overall development aid efforts also ought to be spread more uniformly round the different parts of the globe.

Each of the three major donors has concentrated its efforts on one area of the world, where, for various reasons, it has assumed special responsibility. The Community concentrates on sub-Saharan Africa (to which just under half of EEC aid goes), Japan looks to Asia (to which it allocates 70% of its aid) and the US, if its aid to Israel, Egypt and Pakistan is ignored, turns its attention, though to a lesser extent, to Latin America (which receives 20% of the US total).

This is clearly an unbalanced situation, which springs into greater relief when viewed from a slightly different angle. In Asia, the Community's aid follows Japan's, in good second place, since it amounts to four fifths of it. Japan's commitment to sub-Saharan Africa, on the other hand, is far below the backing it receives from the EEC in Asia, and only amounts to an eighth of the EEC total.

The sharing of responsibilities with the US is scarcely more equitable: the Community's aid to Latin America is about 70% higher than US aid, while the latter's aid to sub-Saharan Africa is only one eleventh of the Community's.

No similar imbalance exists between US and Japanese aid, it may be noted.

These figures are very revealing on several counts. Firstly, they show the very uneven way in which the aid burden is shared. The fact that the Community as a whole is responsible for almost all the aid to the less developed countries means that it will have to continue this support, given these countries' needs. But it would be fairer if the responsibility for these countries, whose economic development is unlikely in the medium term, were shared out more fairly between all the donors.

In the same context of a global approach in its cooperation policy, the Community needs to enlarge the scope of its economic cooperation, by involving, to their mutual advantage, private and public, as well as European and local enterprises, especially in investment promotion, joint ventures, technological transfers, etc.

Finally, with the aim again of ensuring that aid is made more effective overall, the process of gradually untying it, currently under examination by Community and OECD authorities, should be seen through to its end.

(b) <u>Policies on the developing countries' foreign debt</u>

The Community should also a) pay close attention to the way in which the developing countries' debt is being dealt with, especially in relation to low-income countries, b) support proposals in the Club of Paris for cancelling part of their public debt, and c) look closely at the initiatives proposed by the Member States to this end.

The development of a secondary market for the developing countries' debt may be seen as an important instrument for facilitating swap operations and debt repurchasing. For the highly-indebted middle-income countries (e.g. Chile), such operations could make a significant contribution to lightening the debt burden. The effect of debt swaps in improving the external financial situation of a debtor country must not, however, be over-estimated, since additional external financial resources are not necessarily brought into play. But this type of instrument is useful in exerting leverage on invested resources.

For the middle-income countries, principally in debt to commercial banks, the application of the Brady proposals, since 1989, has produced good results for certain countries (Costa Rica, Mexico, Venezuela, etc.).

This strategy needs to be pursued more actively, and here, support for the IMF and the World Bank is of prime importance. The Community should pay special attention to:

(a) the difficult question of linking debt reductions to the granting of new loans;

(b) the necessary conditionality of support for debt burden relief operations;

(c) the need for dealing with the debt in a coordinated manner in the various forums, in particular between the Paris and London Clubs.

(c) Direct investment in the developing countries

While noting that private investment depends in the first place on factors relating to the country receiving it (regulatory and administrative framework, confidence in reforms, economic policy), the Community should try, in its cooperation policy, to encourage a flow of private capital towards the developing countries, by stepping up economic cooperation.

In the period 1980-88, direct investment in the developing countries by Community investors amounted to USD 42.7 billion, with US and Japanese investors advancing USD 38.3 billion and USD 30.5 billion respectively.

2.3. THE BILATERAL APPROACH

The Community has entered into relations with all the developing countries; although these relations are with individual countries, a Community-region dialogue between it and various institutions - the ACP Group, ASEAN, the Rio group, Central America and the Gulf Cooperation Council - has been developed.

As a result of the diverse nature of the developing countries and the bilateral interests of the Community, a feature of such relations is that for each partner, objectives and actions are weighted (policy mix) in a manner that is specific.

2.3.1. THE OBJECTIVES

A balance between political objectives and economic and social ones is aimed at.

Among the objectives, the ones which must be mentioned at once are: the prevention and solution of conflicts, respect for human rights, support for the process of democratization and liberalization of the economy, and regional integration or cooperation. Each of these is critical to development. The Community can speak on these matters with authority in the international arena, since it has no hegemonic aspirations.

It should nevertheless be mentioned that other objectives than the purely economic ones generally considered as basic to cooperation policy may be added.

When this or that specific operation is being carried out, for example, the Community could seek to relocate some of its activities (investment policy) or create effective alternatives to stem the flow of illegal immigrants to its shores.

Today, however, the most important objective, perhaps, is environmental protection. Activities connected with tropical forests in certain countries may help to counter anxiety in the Community in relation to biodiversity or the greenhouse effect, while specific projects on say, fresh water utilization, marine pollution or erosion control, may have an effect at the regional level.

2.3.2. THE INSTRUMENTS

When defining the instruments by which it can achieve its objectives, the Community should, according to the principle of subsidiarity, make optimum use of its specific potential: the concessional nature of its funds, its greater concern for the long term, and its status as the world's leading commercial power.

The instruments of development policy are not therefore restricted to classical aid and the commercial (regional or generalized preferences) or financial (project and non-project aid) instruments by which it is implemented. More and more frequently, new instruments are coming into play or old ones are being revamped. Among these we can mention the following:

(a) technical assistance, particularly for the institutions, in training, in transfers of technology and in cultural activities;

(b) humanitarian aid, including assistance for refugees; in 1992, the Commission opened a European Office for Urgent Humanitarian Aid, designed to make relief operations more effective;

(c) political dialogue (Lomé Convention, Rio group, San José, ASEAN, Gulf): this appears to be a very effective tool for bringing external political support to the solution of regional conflicts, to the democratization process and to economic reforms. When countries take part in such forums, from which they risk expulsion should they return to policies which have been condemned there, political dialogue can start to exert pressure for peace and good development policies;

(d) economic cooperation of mutual interest: training, institutional support (particularly in connection with privatization, trade and investment policy, research, energy and export promotion);

Such cooperation could turn out to be very useful in helping the developing countries to take advantage of international marketing opportunities, especially in the Community's domestic market. It will mean motivating private and public enterprises on the European and local sides through an appeal to their mutual interests. Because of its decentralized nature and its effect as a catalyst, economic cooperations is a powerful tool in development. It is particularly important in two differing developing country scenarios: firstly, large countries with technological potential and a big domestic market, despite low per capita incomes (e.g. India, China and Brazil), and secondly, middle-income countries that are ineligible for or not interested in traditional project aid;

(e) drug traffic control;

(f) assistance for environmental protection measures.

There are still more instruments, connected with the Community's internal or external policy, which could have a substantial effect on relations with the developing countries:

(i) policies with external effects: reform of the CAP, standardization policy linked with the internal market, common policies on industry, research and the environment;

(ii) the common immigration policy which is to be adopted.

3. MEETING THE CHALLENGE OF DEVELOPMENT: THE NEED FOR AN INTENSIFIED AND DIFFERENTIATED COOPERATION POLICY

3.1. THE MOVEMENT AWAY FROM NATIONAL COOPERATION POLICIES TOWARDS JOINT COOPERATION STRATEGY

The Community as a whole cannot confine itself to managing or consolidating what the Member States' and Community's cooperation policies have achieved in the past, even though recent years have seen many successes and improvements.

Important as they are, these improvements on their own cannot provide an adequate response to the scale and the complexity of the developing world's needs. It is only a united Community which, thanks to the size of its world-wide commitments (amounting to 40% of all ODA), the variety of different instruments at its disposal, its technical capability and its experience, can effectively confront the problem of under-development. To do this, it needs to overcome three major handicaps which have served as barriers in the past to truly common measures. These handicaps are: the "coordination shortfall" between national and Community development policy; the "linkage (or cohesion) shortfall" between cooperation policies and other aspects of the Community's integration process, and lastly the shortfall in voicing its policy and in providing impetus , which Europe has suffered from in international forums or vis-à-vis other providers of funds.

These shortfalls can only be made up through the definition of a common development policy able to respond to the challenges posed by the development of the South. To define such a policy a consensus must first be reached on a set of common principles and objectives, which can be used as the foundation for the development cooperation effort of the Community and its Member States.

Defined jointly, these principles and objectives must constitute a "logical framework" within which to formulate our policies and implement our support.

Constraints to be taken into consideration when defining a strategy for cooperation

3.1.1. HOW CAN AVAILABLE AID RESOURCES BEST BE "MANAGED"?

For most of the poorest countries, ODA will continue to be a decisive component in the flow of resources from outside, on which their development will depend in the coming decades. This is the inevitable result of both the constraints weighing on their capacity to export and the fact that they hold no attraction for foreign (private) investors.

In the coming years, however, the developed economies will have innumerable calls on their financing capacity: the needs of the poorest developing countries will swell the demands for capital to finance reforms in eastern and central European countries and the former Soviet Union. Capital will also be needed by the developed economies themselves to pursue their own adjustment efforts, made all the more urgent by trade liberalization following upon the conclusion of the Uruguay Round.

The relative shortage of capital flows on concessionary terms must lead to a concentration of financial resources and to a re-focusing of objectives within the Community.

As a priority, financial resources must be directed to supporting vital activities that will act as a motor for the development process, e.g. optimizing human resources or overhauling a country's administrative or executive services.

3.1.2. HOW CAN DIVERGENCES IN THE DEVELOPING WORLD BE "MANAGED"?

The growing differences in economic and social performance in countries of the South is one of the most striking features of the past thirty years of development. Enormous divergences in *per capita* income among developing countries is perhaps the most noticeable of these. Simplifying the situation to its extreme, we can say that the countries in the South are now running at three different speeds. There are the so-called successful countries like the newly industrialized Asian ones, capable of developing under their own steam; there are the countries whose potential for development is good but who are heavily caught up in the process of economic restructuring, for example many Latin American countries; and finally there are the countries lagging far behind, whose dependence on a handful of raw materials is as strong as ever. The latter group contains almost all of the African and the less developed category of countries (as well as some in Latin America).

This growing diversity in the situation of the developing countries means that they have differing needs. For the better-off among them, greater access to the industrialized countries' markets and a new framework for economic cooperation - which would promote joint investment, the expansion of scientific research and transfers of technology - should be the principal aim. For others, whose problem is a disruption of inward flows of money, priority should be given to obtaining financial contributions on special terms, so that the mounting debt burden can be lightened and support can be provided for the economic reform process in which they are engaged. For others again, because of their chronic inability to satisfy their needs, they must be given assistance in the provision of the most elementary necessities: food and health care, for example.

The final goal of cooperation, however, with whichever category we are concerned, will still be the same: to bring them gradually into the mainstream of the world economy so that the phenomena of marginalization and exclusion, in evidence today, can be eliminated.

3.1.3. HOW CAN THE COMPLEXITY OF THE RELATIONS WITH THE DEVELOPING WORLD BE MANAGED?

The scope of development policies has been considerable broadened in past years. Integrated programmes have replaced the financing of individual projects. Other forms of support have gradually been added, for example assistance with the balance of payments, or direct aid for budgets in the framework of stabilization and macroeconomic or sectoral adjustment programmes.

In addition to the need for managing these more complex types of support, it is now imperative to include new dimensions in our cooperation arrangements, like the environmental connection or matters relating to migration, corruption, security or defence.

In the past two years, moreover, political issues, in particular as to whether or not any form of democracy exists, have been added to the strictly economic or financial conditions hitherto employed by the IMF and the World Bank. More recently still, a consensus has emerged on the world stage to supplement demands connected with democratization by others more specifically relating to the operations of the state and the public service. There is a tendency, therefore, towards encouraging a state of law, which would guarantee genuine transparency and prevent government high-handedness, as a pre-requisite for the effectiveness of the reforms to be undertaken.

As a result, the attitude of the recipient country will in future be one of the deciding factors in the allocation of development cooperation resources.

3.2. COOPERATION STRATEGY: PRIORITIES AND OBJECTIVES

3.2.1. BASIC PRINCIPLES

The development efforts harnessed by the developing countries themselves (and by their partners) are designed ultimately to instigate, encourage or maintain a sustainable process for improving the conditions under which entire populations live. Their minimum aim is the provision of a decent standard of living for all.

Development also implies that a greater number of freedoms exist and can be enjoyed. It should aim at a fairer distribution of the fruits of growth, better individual and collective security, wider access to educational and health services, and the promotion of cultural values and the heritage of each country or community within that country.

The plurality and complexity of the dimensions of development must be taken into account in formulating development cooperation policies.

Development is a global process of transforming societies. As it gathers pace, a complex interaction between the various elements of the social fabric starts up.

Development can only continue if all of these elements evolve harmoniously. During the process , some of them may have to be profoundly altered.

Since all development activities have a place in this interactive network, they cannot be designed independently of these structural elements, which during decades of development efforts, deployed with more or less success, have been shown to play a decisive role.

If the scope of cooperation policies is to be extended, in particular to political and institutional areas, profound changes must be made in the way that dialogue between the developing countries and their developed partners is conducted.

The definition of development, like its implementation, is the business of the country concerned. Yet it is also logical and legitimate for providers of funds to define their own cooperation strategies, i.e., the purpose of their actions, the scale of their commitment and the instruments they intend to employ.

Once this process is complete, the political and economic conditions likely to ensure the success of the Community-supported reform programmes and development activities can be defined and agreed upon.

Each party must make specific undertakings and then abide by the contract.

Consequently, in its cooperation policy, the Community must ensure that the promises made by the recipient countries are really kept, for this will determine the effectiveness of its aid. If the commitments are not met, the action itself will inevitably be jeopardized.

The Community is not just a partner like all the rest for the developing countries. In our cooperation with them, the special nature of our relations with our partners, founded on confidence, mutual undertakings and an on-going dialogue, must be safeguarded. We must take care that the country in question carries out the necessary reforms, and that these are not merely imposed from without.

In every country receiving aid, it is the responsibility of the various donors to see that the set of conditions attached to their contributions is consistent with those of other donors. This requirement has become increasingly important since, with the passage of time, assistance now takes very different forms, and is increasingly associated with conditions affecting whole areas of, or even the entire, economy of the country assisted (if the conditions relate to macroeconomic objectives or protectionist policies).

3.2.2. MAJOR THEMES OF A DEVELOPMENT COOPERATION STRATEGY

A political situation blocked by a state which does not provide itself with the proper means of ensuring economic and social justice, structural disorder in the economy often accompanied by an intolerable level of debt, the absence of competitive economic structures, a poor position in world trade in products, services, capital, technologies and information, all in a variety of forms and differing in intensity from one country to another: these phenomena may be seen in almost every developing country.

Development strategy therefore needs to be designed around four major themes: reform of the state and the political system, stabilization and reconstruction of the economy, encouragement for new competitive economic structures, and acceptance of countries from the South in international trading.

Each of the developing countries has some way to go in at least one of these four directions. Many need to advance in all four. The action to be taken towards this goal will, of course, have to be adapted to the specific situation of each of them.

A. Democracy, human rights and effectiveness of the state

Since its mission is to ensure economic and social justice in the common interest, a government plays a vital role in the development process.

In a number of developing countries, the government is not equal to this task.

This question must no longer be skirted around in cooperation policy if it appears that political and institutional factors are proving detrimental to development efforts. The ability of a government to carry out economic reforms depends, in fact, on the credibility it enjoys among its people. When the state is headed by an élite or a particular ethnic group or clan, it is difficult to expect part of the population, denied the fruits of growth, to use its efforts and to work for the sole benefit of that élite, with which it cannot identify.

But beyond reasons of an operational nature such as these, the promotion of democracy and respect for human rights is an essential aim of the Community's development policy in itself.

This human-orientated policy aims just as much at relieving the misery, and improving the physical well-being of the population assisted as at ensuring that rights, freedoms and the dignity of each and every member are respected.

Which reforms and political changes can be encouraged in the developing countries and how can they be supported?

The keyword here, democratization, describes a process, not a state. It covers several minimal demands: respect for the fundamental freedoms of expression, movement and association; the equality of all people before the law; freedom of the press and pluralism of political expression; and above all, the separation of powers and a method of choosing leaders that renders them fully responsible to the national community and provides for alternance. It is via political reforms that a fairer distribution of national incomes and greater social justice will be achieved.

If the international community wishes to encourage democratization in the developing countries and to obtain lasting progress, it must make itself quite clear and apply its "conditionality" deliberately, remaining quite firm on its minimum demands, but remaining neutral as to how democratic life should be organized (since the choice of their institutions must reflect the will of the people).

Political pluralism and universal suffrage truly reflecting the popular will cannot, in all probability, be installed rapidly or easily in all the developing countries, and in any case, even if they are, they do not guarantee that a state of democracy will henceforth exist. Without them, though, it is plain that there can be no democracy.

On the other hand, it is impossible for the democratic process to start up or persist until an effective "economic fabric" is in place. The creation of this should be sought through active support for any plans which place responsibility on the shoulders of the recipients by involving them directly in the management of aid (development through participation). One further point to be taken into consideration when the Community's aid policy is being drafted is the proportion of the recipient governments' budgets spent on arms.

By lowering their aid volumes, donors could persuade recipients to cut their arms purchases down to reasonable levels compared to, say, their spending on health or education.

This is not the place to go into details on the positive measures the Community could introduce to encourage democracy, or on the sanctions that could be used in cases of human rights violations or any interruption in moves towards greater democracy. These matters have already been the subject of a Communication from the Commission to the Council.[1] What is important is to stress the Community's need to engage in a thorough-going dialogue on institutional and political reforms with the developing countries, whenever this appears necessary.

The improvement of political structures must be carried out in parallel with a serious reform of states' administrative structures and management methods.

Several measures could contribute to this:

(a) a review of the state's tasks, so that it concentrates on its essential functions;

(b) a simplification of administrative structures and procedures, so as to leave room for business to exercise initiative;

(c) a decentralization of decision-making and administrative machinery, to improve contacts between administrative services and the public and facilitate democratic controls;

(d) on-going efforts to train and motivate public servants;

(e) greater transparency in the activities of the authorities, which, by assisting democratic controls to operate, would help in the fight against corruption.

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[1] see the Communication from the Commission on human rights, democracy and development cooperation policy (25 March 1991); Council Resolution of 28 November 1991.

B. Rebuilding the economy

The second imperative is to rebuild the economic bases for growth. This means, first of all, restoring the major balances, via a stabilization phase, the length and cost of which are often under-estimated. This should be followed by more profound reconstruction of the economic fabric. Finally, constant attention must be paid to the long-term conditions for sustainable development.

1. Macroeconomic stabilization

Still today, the majority of the developing countries need to restore their macroeconomic balances, if they are to experience healthy and lasting growth.

It is nearly always the crushing effect of their debt and the cost of their imports that have convinced them, with or without IMF support, to engage in the reforms that can re-establish their macroeconomic balances, and more particularly, to overhaul the management of their public finances.

Such reforms have not always, by themselves, managed to remove the constraint of a balance-of-payments deficit, which for some countries, acts as a powerful brake on growth.

An inflow of adequate external resources, in the form of export earnings, ODA, commercial loans and direct investment is essential for restoring the bases of healthy and lasting economic growth. In this context, measures to alleviate the debt are vitally important.

Such reforms must be kept in place for a long time before success can be guaranteed.

Support for restoring the balance of payments and for an appropriate budget should be provided for countries embarking on stabilization measures; it should take account of the time needed for the effects of reform to be felt.

The experience of countries which have implemented structural adjustment programmes has shown that bringing the economy under control can have significant economic and social costs which may destabilize the governments which introduce them, especially since their positive effects may take some time to materialize.

The costs, social ones in particular, of stabilization programmes are now better appreciated. Restructuring conducted in appropriate stages spread out over a period, aid in finding employment for public employees and workers whose jobs are lost, operations targeted towards the most vulnerable groups, are all ways of cushioning the social and economic costs of adjustment and of making restructuring and budget restrictions more acceptable.

2. Restructuring the economy

Liberalization of economic activities is the main plank of structural reform. This must be carried out rationally on both internal and external levels. Within the country, the removal of unnecessarily dirigiste or petty regulations, the reduction of administrative controls, lower and more rational taxation, price de-restriction, and more flexible employment codes, are all vital in order to re-inspire businessmen with a "taste for investing" and "the power to manage", all too often destroyed by suffocating bureaucracy. On the external level, adjusting exchange rates to more realistic and flexible levels, more liberal trade policies, overhaul of investment codes and financial regulations which make capital movements easier, are so many methods of opening up a country's economy to competition and encouraging an inflow of foreign resources.

Reforming the public sector is indispensable, but it is sometimes risky for shaky or poorly-equipped governments.

The major moves towards privatization at the start of the eighties have shown their limitations in most of the developing countries, because of the absence of a private sector on the spot able to substitute rapidly for the state. A more gradual approach has often had to be adopted, whereby the productivity of certain publicly-owned enterprises has had to be stepped up before the state can hand them over to the private sector.

Although the state has often been called upon to withdraw progressively from its role of direct investor, successful restructuring is nevertheless dependent on its continuing support for productive investment. Via the rehabilitation of infrastructure and essential services, reform of the banking system, the decision to impose less draconian taxation on businesses, the state must rapidly create the material and regulatory conditions needed by businessmen in order to invest.

When demands for capital expenditure are being made, the rural world must remain a priority. Agriculture in the developing countries is not an economic activity with a high growth potential or even one that brings comparative advantages. But in countries where the rural population and agricultural production predominate i.e. the majority of developing countries, efforts to assist them must be continued for reasons of social progress and equity and to prevent a drift of the rural poor towards the towns.

Given the rapid increase in urbanization, donors should also be aware of the major social and economic changes taking place in urban society. In the short term, social tension resulting from economic reform programmes is more likely to be produced in towns. The situation calls for targeted operations on groups of urban dwellers who are cut off from the benefits of growth or who are victims of adjustment programmes. But above all, support should be given to active policies for strengthening the economic complementarity of town and countryside.

Over and above such targeted support, it is clear that a genuine incomes policy is also needed to complete the viable restructuring of the economy. In most developing countries, "spontaneous" income distribution continues to over-reward speculative operations and people with administrative power or real assets (e.g. foreign exchange, land), at the expense of businesses and productive labour. Access to public health or educational services is only available to some, and worse, it is very unevenly divided between towns and rural areas, and between social groups in the towns. Measures and reforms to encourage greater fairness and social justice, especially as regards land and agrarian ownership, income tax and access to loans should therefore be supported.

3. Laying the foundations of long-term development

One of the major weaknesses of the structural adjustment programmes of the eighties was precisely to make the developing countries - and donors as well - concentrate their energies on short-term results (i.e. 18-36 months), in line with six-monthly debt-servicing payments or annual reviews of macroeconomic performances.

The short-term outlook is correct when stabilization policy is at work, but it is unsuitable for development strategies, where long-term factors (demography, introduction of qualifications, sluggish markets) have to be contended with.

In the developing countries it is advisable to encourage a return to a certain type of programming; medium-term programming of public expenditure (which is already used for programming public investment programmes negotiated with the World Bank), the preparation of multiannual budgets for education and training costs, the design or urban and regional development schemes, and plans for managing natural resources (forests, fisheries, catchment areas) are all ways of mobilizing forces and providing guarantees for businesses, while leaving them room to exercise the freedom they need.

Where donors are concerned, efforts must be made to provide long-term programming of aid and cooperation, both in terms of the volumes of resources to be contributed and their geographical or sectoral allocation.

C. Encouraging new competitive economic structures

It would be unrealistic, and in fact dangerous, to recommend policies of international openness and liberalization without attempting to implement prior policies aimed at encouraging new competitive economic structures. One of the fundamental aspects, therefore, of any development cooperation policy must be the inclusion of objectives involving the creation of such structures, to enable businessmen in the developing countries to compete in the conditions prevailing in the international markets. An analysis of successful economic development during recent decades shows that success stems from the creation at national level,[1] of a climate favourable to competition between enterprises, since in a market economy the capacity for initiative and the responsibility for business activities must, in the first place, lie with firms themselves.

In the specific context of the developing countries, state intervention should stimulate and support the creation of open and competitive conditions for business, by setting up machinery to encourage the development of efficient factors of production. This will enable the enterprises to build up dynamic competitive advantages.

It is essential for each country to create a competitive domestic context, after which its enterprises will be stimulated into acquiring competitive capacity.

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[1] or regional, according to the country's situation and position.

It is possible to identify some of the prior conditions for creating a suitable business environment and hence improving the chances of a developing country's enterprises becoming competitive.

Real competitive capacity that can be easily mobilized must exist in a country, in fact, if its enterprises are to survive and even more importantly, if they are to benefit from the potential which the opening-up of the country's economy to international competition produces.

These prior conditions are:[1]

(a) the existence of competitive structures in the vicinity of the enterprise (i.e. in its own sector or the sectors upstream or downstream from it);

(b) the existence of a legal and institutional framework that leaves businesses free to take initiatives;

(c) the existence of an adequate technical infrastructure (transport and communications);

(d) the existence of a satisfactory educational level in the sectors of society which are likely to become involved.

Comparative factors of competitiveness are first and foremost built up through powerful pressure in local competitive circles. Such pressure can then produce positive knock-on effects, via the stimulus they exert on a) the demand for specific qualification-orientated training and b) the need to improve technological capacity and develop specialized infrastructure rapidly.

If this path is followed, a country's domestic competitive situation can soon become a real lever for promoting progress and economic developmen

The success of dynamic enterprises in the developing countries in condition of an open economy is of necessity dependent on their having become competitive in their own economic environment. Competitive pressure, both from outside and at home, can therefore provide the motor by which enterprises develop competitive advantages, and through them, the country as a whole.

As the recent history of countries whose economies have succeeded in taking off has shown, the secret for gaining competitive advantage is to practise real, healthy economic competition. When the latter is allowed genuine free play, vital lessons can also be learned by the other actors whose participation in development is necessary.

[1] Michael Porter, "The Competitive Advantage of Nations".

D. Increasing the participation of the South in the world economy

1. General approach

One of the essential objectives of the structural adjustment policies implemented by the developing countries is to enable them to become an integral part of the world economy, participating in expanding activity and trade and the attendant economic and technical progress.

For the newly industrialized countries and those following in their wake, like Thailand, Malaysia or Mauritius, successful insertion in trade in goods, services, capital and information, which are the mainsprings of the world economy, has provided an essential basis for and a clear indication of the success of their development efforts. For most of the other developing countries, the route to similar integration seems to be full of pitfalls.

These growing disparities threaten the least successful developing countries with marginalization. The idea of introducing a new international economic order under which imbalances and differences would be managed, is no longer an attractive one. While it is certainly possible to introduce arrangements that would take better account of the needs and possibilities of different groups of developing countries, into the international trading system, the imperative of competition must apply to them all and inspire their development strategies, as we have shown in the previous sub-chapter.

The requirement of competitiveness can obviously not be achieved through the same political and adjustment policies everywhere. Penetrating the European or Japanese market, finding outlets with substantial added value or invigorating technology are, of course, nottargets that all developing countries can reasonably aim at.

In this context, the Community could lend its support to the establishment of appropriate institutional framework, and to actions aimed at improving productivity, developing local capacity for innovation or technological adaptation, adjusting domestic or regional demand, changing production techniques in line with modern advances, and creating conditions that are more attractive to foreign investors.

The acquisition and exploitation of information is also subject to intense competition, the factors of which range from the identification of commercial outlets or the cheapest methods of transport to the choice of the most successful technologies.

The transition from the national to the regional dimension may, for many developing countries, be the first step in enlarging their economic space. Regional cooperation and integration are also important instruments for fostering economic development. In addition, they may help to reduce political and military tensions in the region and provide support for individual countries' democratization.

With its own wealth of experience in this domain, the Community should pursue and broaden the initiatives it has already taken, when it renews agreements or cooperation programmes (Lomé, ALA developing countries, and so on) or acts in various forums (World Coalition for Africa - post Maastricht exercise; special programme to assist sub-Saharan Africa; the OECD's Development Assistance Committee).

A favourable macroeconomic background is the first of the conditions for helping to make the South an integral part of the international economy. The pace and succession of measures for organizing trade access are also vital to the success of restructuring policy. Exchange rate management also plays a decisive role in implementing these policies. Imperfections in the labour market may also push up the economic and social cost of adjustment resulting from more open trade. Finally, distortions in the price system may lead businessmen off in false directions.

In some cases, the provision of export incentives and measures to promote labour mobility (training, fiscal measures affecting amortization of capital costs) may be vital in helping to reallocate the factors of production - one of the aims of a policy of greater openness.

The composition and timetable of the programme of trade liberalization must be defined carefully, with attention being paid to the characteristics of the economy.

More generally, the reason for the developing countries to open up, and the extent to which they do, will vary from one to another. It is clearly desirable to break down protectionist walls behind which wasteful uses of production resources have been able to flourish. It is obvious that, if a particular economy wishes to enjoy the dynamic benefits of the world economy, the first obstacles to development which must be removed are those in sectors with export potential.

But in many countries, poor training, a weak technological base, inadequate infrastructure and a shortage of capital and sometimes of natural resources, all of which are pre-requisites for creating competitive economic structures, may seriously compromise, at least in the medium term, the chances of success of any opening-up policy. These factors may restrict the prospects for diversifying the economy and may be the sources of severe competitive handicaps that are difficult to overcome even in the home market once it has been opened up to strong competitors, let alone in third country markets.

A systematic assessment of the size of the gap in competitiveness between countries like these and their rivals, and an analysis of the various factors at the root of handicaps of this type must be the first step in any reform of trade policy, to assess the goals and the reforms and adjustments needed , before the potential advantages of opening up can be realized.

2. Technological development

Technology is a determining factor in competitiveness, whichever economy is under consideration.

Disparities between the developing countries in their capacity for technological advance are growing. They indicate the conditions which produce technological dynamism and the fields to which they relate: economic, institutional, technical and cultural.

Adequate transfers of technology are obviously one of the most important of such conditions, but they only occur if there is sufficient local capacity for applying, disseminating and adapting them locally. Training must continue to receive attention as a priority, both in the programmes of the developing countries and in the technical assistance provided by donors.

Technological cooperation, South-South as well as North-South, should also be stepped up. For countries experiencing the same needs, South-South cooperation is a way of sharing R&D costs, which are on the increase, and of finding very profitable synergies in terms of technological development. This is exactly what initiatives like the Bolivar programme, recently launched in Latin America, hope to achieve.

The experience of countries which are slightly ahead in this area and which have recently solved similar problems, can be drawn on to help other developing countries in their technological and development choices. Appropriate technologies designed to meet the needs of the less developed countries can be passed on to other developing countries, and not necessarily by the industrialized ones.

If the developing countries are to be incorporated into networks for the exchange of technologies, many of them will need to be better informed about the various technologies available, where they can be found, how they can be acquired or ways in which technological cooperation can be undertaken.

3. Commodities

The long-term downward slide in demand for and prices of most of the Third World's products has exacerbated structural problems in these countries, many of which are among the world's poorest. Though to a less marked extent since 1982, commodity price instability still causes fluctuations in export earnings on a scale that poses one more obstacle on the road to development in the countries affected.

The positive results obtained through diversification in the more advanced developing countries, synonymous there with expanding income, investment and productivity in all sectors, including commodities, has only added to the problems of the less developed exporting countries. The latter have often lost part of their share of the market to more competitive rivals with better knowledge of marketing channels. Their declining share of the market has even benefited the developed countries on some occasions.

The basis for actions which seek to improve conditions for the production of commodities in the countries which depend most heavily on them is a forecast - which unfortunately leaves little room for doubt - that they will continue for several years to come to derive most of their income from such products. For them, diversification, which lies at the heart of the development process, will require a long period of effort. Any activities aimed at increasing the developing countries' profits from their share of the international commodities market must take into account the growing competitive disparities among commodities exporters. Such activities must be designed with the following key objectives:

(i) to provide countries that are most heavily dependent on commodities, as well as donors, with the clearest possible picture of the market situation, especially as regards competition;

(ii) to support the attempts of these countries to export to certain markets, particularly in central and eastern Europe, the CIS, and a few other developing countries;

(iii) to pursue and support measures to diversify and to improve competitiveness in the commodities sector;

(iv) to limit the negative effects on their development efforts of fluctuations in commodities export earnings;

(v) to see that product agreements are again working properly and that they continue to do so, since these help to limit excessive price fluctuations.

3.3. THE CAMPAIGN AGAINST POVERTY

The campaign against poverty, which may take many forms, cannot be viewed as a particular theme or isolated element of development strategy. It is true that poverty may be the result of physical constraints in a sometimes hostile natural environment, but it stems much more frequently from a badly-managed economy putting a brake on growth than from a structural deficit of technical ability. It is also brought about by political and social structures that accentuate inequalities in the distribution of a country's wealth.

Three items in any strategy designed to lessen poverty, currently affecting more than a third of the world's population, are the restoration of growth, the installation of viable economic structures and the removal of inequalities.

Poverty, in any case, is not only a phenomenon of the poorest countries (defined as those with less than USD 530 of per capita income). It also affects a section of the population in quite a lot of middle-income countries in the South. Such groups must also be provided for in any cooperation policy intended to alleviate tensions and restore balances on the global level.

The spectacular progress registered by rapid-growth Asian countries such as Indonesia, Malaysia, Thailand,and Pakistan is proof of the prime role of growth. In Indonesia, for example, the proportion of poor people fell from 58% to 17% between 1970 and 1987. Inversely, the recession that has hit Africa, Latin America and some of the eastern European countries in the eighties has clearly had adverse effects on the poorest sections of the population.

Although a major influence on a country's growth is the international economic situation, it can also, to a great extent, be affected by policies it has itself implemented, in particular how it has adapted its production conditions to changes provoked by the crisis. The spectacular recoveries made by countries such as Brazil and Mexico recently readily prove this.

Recovery of this type is not, however, capable of being reproduced everywhere. In countries with structures which have never really been able to generate a sustained and self-sustaining development process, it will be necessary to adopt, first of all, a strategy for overhauling outmoded economic structures lacking in competitive viability, in order to build the very foundations on which growth can be based.

Side by side with macroeconomic improvements, efforts will be needed to remove inequalities and by so doing, poverty will be reduced. As an illustration, Brazil, which is a comparatively rich country, has a <u>per capita</u> income of USD 2 500. But the poorest 20% of its people have an average <u>per capita</u> income of only USD 300. In such cases, the inequalities mainly stem from land ownership structures and the system of income distribution. Specifically, the latter is the result of the fiscal legislation, which sets the volume and form of taxes due, and hence determines which social categories shall pay tax and which shall receive state benefits funded from the country's budget.

Institutional reforms are therefore an important element in any programme to combat poverty. Until governmental machinery and political systems become genuinely democratic, it will be impossible to ensure that income is distributed any more fairly.

The reforms we have mentioned will only bear fruit gradually, in the long term. They must be supplemented by targeted operations to relieve certain kinds of suffering and to offset the social costs of reform policy and economic restructuring.

The extension or even merely the maintenance of basic services, particularly education and health services, is a priority, since in real terms expenditure on the social sector has slumped by 26% in sub-Saharan Africa and by 18% in Latin America between 1980 and 1985.

Clearly, donors should not confine their efforts to merely providing financial contributions. The situation provides an opportunity for helping governments to restore these public sectors, which are seldom run efficiently.

In addition to chronic poverty and the social hardships caused by economic reform, there are other forms of poverty of an "accidental" nature, linked to armed conflict or the oppression of certain population groups (e.g. the difficulties in the Horn of Africa, the Kurdish question) or to natural disasters (e.g. floods in Bangladesh). All these add considerably to the demand for emergency aid for humanitarian purposes.

Given the volume and variety of requests for humanitarian aid, it is necessary to define some objectives and principles, followed by some priorities. Gifts of aid are useless unless the gift is "managed". It is therefore essential to see that humanitarian operations are properly conducted. Moreover, such emergency measures should also be carried out within a logical framework so that any possible conflict with the demands of the necessarily longer-term development process are reduced (e.g. the possible clash between food aid and agricultural development strategy).

In addition, where a particular group of people is suffering acutely, the Community should be able to contribute its humanitarian aid directly, even if the authorities in the country concerned are opposed to such an initiative (the right to intervene for humanitarian reasons).

4. OPERATIONAL DEFINITION OF PRIORITIES, BY REGION

The tendency observed during the past decade has amply illustrated the willingness of the Community, supported by its 12 Member States and all the instruments it has created (financial machinery, trade policy, investment aid), to cooperate with the whole of the developing world.

4.1. DIFFERENT APPROACHES

Each developing region has individual characteristics, described below, which justify an active role on the part of the Community.

1. Sub-Saharan Africa is deserving of very special attention because of Europe's historic ties with the region; this attention needs to be reinforced, owing to the acute effects there of the absence of order and the extent of poverty.

2. The Mediterranean, whose geographical proximity means that events there can influence the stability of our own environment; like the countries of central and eastern Europe, it therefore requires an immense amount of support going far beyond the simple demands of solidarity. Our aid must be based on clearly formulated mutual interests.

3. Latin America, because of our very close cultural ties with this continent and the enormous potential it represents as regards trade, investments and transfers of technology and know-how, calls for a policy which must be innovatory, especially since possibilities of cooperating with it have so far been under-exploited.

4. Asia, with its serious problems of poverty, needs enhanced measures of solidarity; but at the same time, a framework for broader economic cooperation with the more advanced countries in the region could prove beneficial to Europe (e.g. joint ventures, research agreements, transfers of know-how).

Because of growing disparities between developing countries, a greater diversity of needs is emerging. This makes it necessary to encourage the implementation of varying and selective support strategies.

In terms of development cooperation, however, the extent to which Community policy has the power to exert real influence on development varies from region to region. The degree of influence is determined by the "weight" of the Community and its Member States in the aid total (the "relative mass" of Community aid), and the scale of the aid in relation to major macroeconomic indicators, particularly the GDP and the budget of the recipient countries or regions.

Our ability to influence the development process, even in regions where the Community's direct contribution does not reach the "critical mass", will be much greater through a rational and coordinated fusion of Community and Member States' resources.

The European Community will be more effective if it also includes other instruments for cooperation. Among these, we can point to trade, investment policies (e.g. joint ventures) and the creation of a framework for economic cooperation aimed at encouraging technological transfer, research development and scientific training, as well as cooperation on education.

4.1.1. PRIORITIES FOR SUB-SAHARAN AFRICA

Africa has made plenty of progress towards development: health conditions have steadily improved, many now have access to education, a fairly substantial infrastructure network has been created. Along with these achievements, however, especially in the past decade, there have been a number of serious economic errors which have unfortunately weakened Africa's position vis-à-vis the rest of the developing world.

The downward spiral in the continent's economic performance is impressive. Proof of it is everywhere: in the low economic growth rate, the drop in per capita income and deterioration in social levels, and in the constant dwindling of its share in world trade or world income. In many cases, this crisis situation has been brought about directly by regional or internal conflict.

It is also taking noticeably longer for Africa to acquire and assimilate new technologies and to manage information and communications systems. The same holds for its progress towards greater democracy in its societies. The gaps between this continent and most other countries (including developing ones) are, in fact, getting wider.

The serious situation in which the major part of Africa finds itself may give the impression that everything is a priority. Such a view can only lead to a dispersal of financial resources which will become increasingly unequal to the task.

Yet past experience has shown that the main reason why aid has failed to live up to its promise is that the economy - too highly-centralized, run by inefficient state institutions, and undermined by corruption - is badly managed.

It is because of this that European and international cooperation should, in African countries, be used, as a priority, to support policies for restructuring the economic fabric and for introducing democratic reforms, which have, in any case, started up spontaneously in many of them.

Policy like this is already being implemented in many African countries. They have taken the road to reform, with difficulty but often with courage and determination. However, restructuring can only be carried out slowly and it therefore calls for a real "contract" of partnership between the Community and Africa - the African countries making a commitment to follow the road to reform and the Community promising to support them for the time it takes, while also financing short-term measures to relieve the immediate effects of the crisis.

This framework for improving the situation has one or two major drawbacks, from the institutional point of view. The first of these concerns coordination, not only between the Member States of the Community, but also with the World Bank and the IMF, the institutions most closely involved in rstructuring operations. It is quite clearly impossible to make headway in this sector of cooperation by following divergent routes; therefore the Community should step up its dialogue with these institutions, in order both to avoid taking decisions that are not fully compatible with the objectives of each of them and to make known its own ideas on how African countries can evolve, based on its experience, its compassion and its concept of development.

Another problem is posed by the degree to which the Community's existing instruments for implementing such a policy can be adapted. The Lomé Convention already allocates considerable sums to structural adjustment. On the other hand, the Convention's current machinery is only partially suitable for the type of negotiations with governments which now seem to be necessary in order to make aid really effective - and this as regards both structural adjustment support and more specific operations.

Benefits, like the opportunity for calm dialogue between partners, have definitely accrued as a result of fixing in advance, in the programming framework, the amount of money to be allocated. But there have been drawbacks: the fixed sums laid down make it difficult to be adaptable when circumstances demand. A more flexible system, with room for manoeuvre, would make this instrument a more effective one.

Another difficulty arises because the sole interlocuter, the only partner in discussions on cooperation, is the state. It is questionable whether this is a situation that should be maintained, in the context of progress towards greater decentralization and more importantly, from the viewpoint of liberalization measures, which are bound to reduce the role of the state in the economic sphere. Is there not need, perhaps, to find and deal directly with other partners, particularly grassroots communities and the private sector, instead of with governments alone?

It is also clear that, parallel to restructuring measures, other cooperative operations of a different kind, aimed at coping with serious long-term problems, should also be mounted. Food security policy needs to be relaunched because of the forecasts of growing deficits. The issues of biodiversity and environmental protection, and problems connected with population growth are all areas for study, calling for much larger-scale responses than in the past.

For most of the African countries, incorporation in the world economy is an objective that can only be contemplated in the long term. Right now, regional integration would seem to be an area where cooperation could be brought to bear with quicker and more sure results.

4.1.2. THE MEDITERRANEAN

Two questions more than any others, colour the Community's relations with this region. They can be framed as follows.

(a) Given the gap in living standards between the Community and its southern Mediterranean neighbours and given their demographic growth and the internal tensions that are a permanent fact of life there, how may the Community reduce the gap so that these neighbours become more prosperous and so that migratory pressures to our shores are lessened?

(b) How can the Community lend more effective support to the peace process between Israel and the Arab countries?

In attempting to answer these questions, the Community should:

(i) support economic reforms and regional cooperation to render the Maghreb and Mashreq as attractive to private European investment as central and eastern Europe are set to become;

(ii) contribute on a large scale to these countries' existing family planning programmes.

To achieve these ends, the following will be needed:

1. a large jump in financial resources;
2. the allocation of funds only to countries capable of carrying out the political, economic and social reforms (including demographic policy) necessary for development;
3. directing funds towards:
   - technical assistance with the running of their institutions (the technical condition for successful reform);
   - the social element in reform programmes (the political condition for making reforms acceptable to the population);
   - encouragement for private investment, for the transfer of expertise and technology, and for local exports (business to business);
4. substantial support for regional cooperation both in the Maghreb and the Mashreq (Israel and its neighbours in the peace process);

4.1.3. LATIN AMERICA

While the Community's relations with Latin America should be viewed as a whole (in which respect political dialogue with the Rio Group and all the Latin American countries is extremely important), it is also necessary to remember the wide variety of situations in the various regions comprising this sub-continent.

The main issue is how to strengthen political, cultural and economic relations on all possible levels, with a part of the world whose history and culture are entirely bound up with Europe.

The principal challenges in the Community's relations with the various sub-regions of Latin America are:

(a) for Central America, consolidation of the peace process and support for modernizing their economies in order to ensure the sub-region's take-off;

(b) for the Andean countries, support for economic reforms, combined with active development cooperation measures in an area that is still highly vulnerable;

(c) for the most advanced countries in the region, (the southern tip, Brazil and Mexico), encouragement for forms of cooperation that will persuade more European businesses to set up, so that an enormously promising area can really take off, while tangible efforts at integration are under way (MERCOSUR).

In order to meet these challenges, the Community should:

(i) encourage both political and economic dialogue in all possible forums (Rio Group, Central America, organizations for integration, etc.) and contribute to strengthening the democratic process;

(ii) refine its cooperation policy, both in financial and technical areas (rural and urban sectors, health and new technologies) and in economic ones (partnership in enterprises, industry);

(iii) lend support in finding solutions to acute environmental problems (tropical forests, urban pollution);

(iv) provide humanitarian and emergency aid when called upon (cholera epidemic, resettlement of refugees);

(v) back economic reform processes by providing better access to suitable financial sources (ECIP,[1] EIB), so as to offer greater incentives to European investors, as well as the implementation of cooperation of mutual interest, in all domains where the Community's experience could be fruitful (especially science and technology);

(vi) consider ways of providing Latin American products with improved access to the Community market.

Adopting this course would have the following implications.

(a) It would not be necessary to make any significant increase in the financial resources allocated, even though account would have to be taken of the essential part of the cooperation agreements which now cover all countries in the region (with the exception of Cuba);

(b) Different forms of cooperation would have to be devised to meet different situations (Central America, the Andean countries, the southern tip, Brazil and Mexico);

(c) As a priority, support would be needed for the arrangements to foster regional integration, in view of the beneficial effects these produce and the Community's own experience in integration efforts.

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[1] Economic Community Investment Partners.

4.1.4 ASIA

While geographical considerations have led us to refer to Asia as one developing region, it is in this continent that we find the widest divergences in development levels among the various sub-regions and countries composing it (ranging from one of the poorest - Cambodia - to one of the richest - Brunei - in the world).

For this reason, when considering its relations with this continent, the Community must use different approaches for the various sub-regions, even though, in the longer term, its overall goal is essentially to safeguard and enhance the economic presence of Europe (investment and exports) in a part of the world whose growth rate is, and will remain, the most dynamic.

(a) ASEAN countries

In addition to the goal mentioned above, which is of particular relevance to this sub-region, the Community should concern itself with:

(a) safeguarding the tropical forest, which is the world's most valuable, economically speaking, as well as being the one most at risk from over-exploitation;

(b) lending weight to the region's very tentative efforts at regional cooperation, in the framework of GATT, to which the possible alternative might be the creation of a trading bloc embracing other world powers;

(c) supporting the international effort to hasten reforms in Indonesia (whose population has reached almost half of the ACP countries', and whose development level is still very low, despite the country's natural wealth).

(b) CHINA (and Mongolia)

The Community should set itself the following specific objectives:

(i) the gradual political evolution of the regime and the rapid expansion of its economy, in order to prevent the country from disintegrating, with the serious effects of this on its internal and external security;

(ii) the transfer of European expertise in agricultural, environmental, social and industrial domains, together with a small amount of ODA both to underpin such transfers (via pilot schemes) and to stimulate growth in the poorest parts of the country.

(c) INDIAN SUB-CONTINENT

The specific objectives are:

(i) to combat dire poverty and participate in the international aid effort, for both humanitarian and security reasons, given the grave risk of disintegration (particularly in India) and of armed conflict;

(ii) to encourage more liberal internal and external trade arrangements, so as to trigger off growth mechanisms and safeguard Europe's economic presence, which still outstrips that of Japan or the US;

(iii) to provide support for better environmental protection policy, as regards both industrial pollution connected with energy use and the exploitation of natural resources (especially water) and the Himalayan forest.

(d) INDOCHINESE PENINSULA

This region's historic ties with Europe, its long political and trade isolation, its extreme poverty , and its human resources, make it incumbent on the Community to play a significant role.

The specific objectives are:

(i) to provide humanitarian aid for resettling refugees and for providing rural inhabitants with vital needs;

(ii) to make a contribution towards economic reconstruction;

(iii) to lay the foundations of a European bridgehead into South-East Asia.

In order to achieve its objectives, the Community should:

(a) take the interests of Asian developing countries into account when working out its trade policy - general or preferential - vis-à-vis other parts of the world, and when setting up consultation machinery, which would enable countries in this region:

  . to be duly informed of any measures the Community intends to take;

  . to be consulted on their specific needs and problems;

(b) support economic reform in countries where the economy is still to some degreee run by the state (Indian sub-continent, Indonesia);

(c) contribute to a flow of ODA to the poorest countries, concentrating on the most disadvantaged regions and populations as well as environmental protection measures, but also providing support, in exceptional cases, for international structural adjustment efforts;

(d) enlarge the scope of European expertise transfers, in the mutual interest, in order firstly, to maintain and increase each other's knowledge about potentialities in all areas, secondly to encourage growth and stronger trade flows, and thirdly (and most important), facilitate European investment and joint ventures;

Adopting this course would have the following implications.

1. A large increase would be needed in the number of officials assigned to Asia (even were greater synergy to be developed as a result of bilateral activities on the part of the Member States).

2. Thereafter , a larger allocation of financial resources would be required.

3. At the level of the Commission's departments, staff responsible for defining and applying trade policies should work more closely with those with responsibilities towards a geographical area.

4. It might become necessary to set up a European financing agency (or a pool of Member States' agencies) to provide selective and partial financial support for European investments in Asia.

V. STATISTICAL ANNEXES

1. Unequal economic performances

2. The developing world

3. The challenge of poverty

4. The international community's development aid effort

1. UNEQUAL ECONOMIC PERFORMANCES

(a) Annual average growth rate of GDP, in constant dollars

	65-73	73-80	80-89
OECD members	4.7	3.0	3.0
Developing countries	6.5	4.7	3.8
of which:			
Sub-Saharan Africa	4.8	3.2	2.1
Eastern Asia	8.1	6.6	7.9
Southern Asia	3.6	4.2	5.1
Latin America and the Caribbean	6.5	5.0	1.6

Source: World Bank, World Development Report 1990 and 1991

(b) Per capita GNP (in 1989 dollars)

	Annual average growth rate			GNP/inhab.	
	65-73	73-80	80-89	1980	1989
OECD	3.8	2.3	2.4	10 750	19 090
Developing countries	4.2	2.5	1.5	700	800
of which:					
Sub-Sah. Africa	1.7	0.6	- 1.2	380	340
Eastern Asia	5.2	4.7	6.3	310	540
Southern Asia	1.2	1.9	2.9	260	320
Latin America	4.7	2.3	- 0.5	2 000	1 950

Source: World Bank, World Development Report 1991

2. DISPARITIES IN A DEVELOPING WORLD

(a) Per capita income in the former Soviet republics

	Population '000 000	Per capita income Rbl	USD (rate at 11/90)
Latvia	2.6	1209	2176
Estonia	1.4	1187	2137
Byelorussia	10.4	1176	2117
Russia	148.0	1154	2077
Lithuania	3.7	990	1782
Moldavia	4.3	990	1782
Ukraine	51.8	896	1613
Armenia	3.2	809	1456
Georgia	5.5	781	1406
Kazakhstan	16.7	733	1319
Azerbaijan	7.2	673	1211
Turkmenistan	3.5	577	1039
Kirghizia	4.3	527	949
Uzbekistan	19.9	473	851
Tadzhistan	5.2	440	792
TOTAL (average)	288	990	1782

Source: IMF

Income is measured by Net Material Product, which ignores certain services such as the administration.
Figures are in current 1988 prices.
In November 1990, the official exchange rate was Rbl 1 = USD 1.8, the average for the table being USD 1 780. Controversy over the ruble's actual purchasing power is strong; it probably varied from one part of the country to another.

(b) Per capita income (1989 dollars)

Eastern European countries	
Poland	1 790
Bulgaria	2 320
Hungary	2 590
Yugoslavia	2 920
Czechoslovakia	3 450
Romania	--

Newly industrialized countries	
South Korea	4 400
Hong Kong	10 350
Singapore	10 450
Taiwan (1988)	6 160

EEC (excepting Luxembourg)	
Portugal	4 250
Greece	5 350
Ireland	8 710
Spain	9 330
United Kingdom	14 610
Italy	15 120
Netherlands	15 920
Belgium	16 220
France	17 820
Germany	20 440
Denmark	20 910

Groups of countries	
Low- or medium-income economies	800
Low-income economies	330
Medium-income economies	2 040
Heavily -indebted medium-income economies	1 720
Sub-Saharan Africa	340
Eastern Asia	540
Southern Asia	320
Europe, Middle East and North Africa	2 180
Latin America and Caribbean	1 950
High-income economies	18 330
OECD members	19 090
Other economies	-
All economies	3 980
Oil exporters (excl. USSR)	-

3. THE CHALLENGE OF POVERTY

	Industr. countries	D.cs.	S-S A.	Eastern Asia	Southern Asia	Latin America
Life expectancy at birth*						
1960	69	46	40	47	44	56
1990	74	63	52	68	58	67
Daily calorie intake[1] *						
1965	114	90	92	86	88	100
1985	132	107	91	112	100	115
Infant mortality per thousand*						
1960	45	233	284	198	279	157
1989	18	116	179	57	151	72
% of popln. with access to health care	...	61	45	75	56	61
% of popln. with drinking water access						
1975	...	35	24	..	32	58
85-87	...	55	37	48	54	73
% of popln.with access to sanitation	...	32	..	51	11	60
Enrolment in primary/secondary schools (%)*						
1970	...	55	26	65	45	68
1987	...	70	45	81	60	84
Adult literacy (% of over-15s)						
1970	...	43	26	67	31	72
1985	...	60	48	71	41	83
% of popln. below the poverty line[2] **						
1985	...	33	47	20	51	19

[1] as % of normal intake.

[2] the poverty line is fixed at USD 370 *per capita*.

Sources : Without asterisk, UNDP Human Development Report 1990
* - UNDP Human Development Report 1991
** - World Bank, world development Report 1990

4. THE INTERNATIONAL COMMUNITY'S DEVELOPMENT AID EFFORT

(a) Sharing the overall aid effort (1988-89 figures)

	in USD '000 000	as % of GNP	per capita GNP (1989 dollars)
Community	22.157	0.50	14.777(1)
excl. OCT	19.929	0.45	-
France	7.289	0.75	17.820
excl. OCT	5.061	0.52	-
FRG	4.947	0.40	20.440
Italy	3.384	0.40	15.120
U.K.	2.640	0.32	14.610
Netherlands	2.229	0.96	15.920
Spain	241	0.07	9.330
Belgium	663	0.43	16.220
Portugal	83	0.21	4.250
Greece	38	0.07	5.350
Ireland	54	0.18	8.710
Luxembourg	18	0.29	18.203(1)
US	8.749	0.18	20.910
Japan	9.312	0.32	23.810
Total DAC	47.739		
S. Korea	20	0.02	4.400
Taiwan	26	0.02	6.160(1)
Israel	17	0,04	9.404(1)
India	63	0.03	343(1)
China	98	0.03	346(1)

[1] 1988 figures

The sharing of responsibilities with the US is scarcely more equitable: the Community's aid to Latin America is about 70% higher than US aid, while the latter's aid to sub-Saharan Africa is only one eleventh of the Community's.

No similar imbalance exists between US and Japanese aid, it may be noted.

Several issues are revealed by these figures. They not only show up whether the aid burden is evenly shared, but also, to some extent, suggest whether it is being used efficiently.

By redeploying some of their aid, these donors could lay the foundations for more stable cooperation.

(b) Aid of main donors broken down by destination
Weight of each region in various donors' total aid (as %)

Destination	Donors			
	Community	Japan	US	All donors
Sub-Saharan Africa	47.9	14.6	13.7	34.2
Southern Asia	11.5	20.3	13.9	16.8
Other Asian countries	12.9	50.7	8.2	21.6
N. Africa and Middle East	12.7	7.1	43.2*	14.3
Latin America and Caribbean	14.9	7.2	21.1	13.1

Source : OECD, 1988-89 figures

*Israel receives 12.5% of US aid, and Egypt 9.5%.

(c) Weight of the Community, Japan and the US in development aid
Weight of various donors in total aid received by each region
as %

Region	Donor		
	Community	Japan	US
Latin America	45.8	9.3	25.6
Asia and Oceania	25.6	31.3	9.1
Sub-Saharan Africa	56.4	7.2	6.4
N. Africa and Middle East	35.8	8.4	48.0
All developing countries	40.0	14.3	14.4

Source : OECD, 1988-89 figures

2. <u>Weight of the Community, Japan and the US in the total aid received by a few developing countries, as %</u>

	Weight of ODA in country's GNP	Weight of aid received from:		
		Community	Japan	US
All less developed countries		40.3	8.6	6.4
Madagascar	17.7	57.5	4.8	1.5
Rwanda	11.4	49.0	7.0	3.8
Somalia	46.0	58.2	4.2	6.6
Mozambique	76.1	42.4	6.6	4.4
Zaire	11.0	52.5	12.0	8.3
Bangladesh	9.3	21.7	20.5	7.7
Nepal	15.4	20.5	15.7	2.8
Sri Lanka	8.5	20.1	33.9	7.9
Pakisatn	3.6	17.1	23.8	16.1
Indonesia	2.4	21.3	62.3	1.7
Bolivia	10.7	28.8	21.1	15.7

Source : OECD, 1989 figures