

# Economic relations between Europe and the South

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# Why study European North-South relations ?

- Long European tradition of North-South relations
  - Opening up of the world ([map](#))
  - Colonization ([map](#))
- Helping development is part of Europe's agenda
  - Both for individual countries (maybe)
  - And the European Union ... Article 130u of the Maastricht treaty (1992):
    - Community policy in the sphere of development cooperation, which shall be complementary to the policies pursued by Member States, shall foster:
      - the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
      - the smooth and gradual integration of the developing countries into the world economy;
      - the campaign against poverty in the developing countries

# Introduction

- The EU has been quite efficient at helping Eastern Europe...
  - How efficient is Europe at helping the South?
  - Is there an EU policy, or is it country-specific?
  - (This presentation looks mainly at economic aspects)
- Outline:
  - Institutional framework
  - Trade
  - Foreign aid
- Conclusion: Despite a larger commitment than most, the effect is small
  - Can anyone but the South help the South ?
- Not treated: migrations and “co-development”
  - No real unified policy (except the border policy)

# Institutions (1) What pillars for what relations?

- Theory
  - Pillar II: intergovernmental policies
    - Common Foreign and Security Policy
  - Pillar I: “communautaire” policies
    - Trade treaties
    - Relations with the South: Lomé, Everything But Arms...
- Actually...
  - Individual countries play their own role in foreign and security policy
  - Pillar I policies have implications for foreign and security policy
  - That makes understanding EU’s policies more difficult

## Institutions (2) Relations with ACP countries

- ACP: Africa-Caribbean-Pacific ([map](#))
- During the negotiations for the Rome treaty (1956) , there were still colonial empires
  - France, Belgium... Plus special relationships for Italy and the Netherlands
  - On France's urging, an “associated status” was created
    - + With the creation of the European Development Fund
- After de-colonization...
  - Yaoundé convention 1963
  - Lomé conventions 1975 - 1980 - 1985 - 1989
  - Cotonou convention 2000
  - Controversial Economic Partnership Agreements (2007...)

# Institutions (3) What was in Lomé

- Institutional building: never really worked
- Price stabilisation mechanisms
  - STABEX (agriculture) & SYSMIN (mining)
  - Did not really work, and became unpopular
- Unconditional aid (at the beginning)
  - Rise of conditionality
- Unilateral trade preferences
  - Violated GATT rules of the Most Favoured Nation (MFN)
    - Could not use the FTA exception: no reciprocity
  - WTO procedure by South American producers
    - The whole thing fell down because of “colonial” bananas
    - Germany had fought against them...

# Institutions (4) Reforms 1996-2009

- And...
  - Never really worked (benevolent but misplaced?)
  - The enlargement gave Europe new priorities
- So, movement toward Cotonou (2000)
  - Reciprocal trade concessions
  - More conditionality on aid
- To comply with WTO...
  - The deadline was 01/01/2008
  - Solution: Economic Partnership Agreements (EPA)
    - Regional (not always) / Reciprocity (nominal...)
  - Some signed (East Africa, South Africa, West Indies, Cameroon)
  - Many still waiting. Conflict between LDCs and others (e.g. Côte d'Ivoire / Ghana are not LDCs)

# Transition

- We have looked at some aspects of the organization of European policy toward the South
- Complex (as most of the Union is)
- The importance of Lomé/Cotonou
  - Lomé was a centrepiece of the European-South relations
  - Its evolution was linked to the evolution of Europe
- Now let us look at two more specific aspects: trade and aid
  - Starting with trade

# Trade (1) Trade with other LCDs ([map](#))

- Relative neglect under Lomé, which was part of the problem
- Generalized System of Preferences
  - 1971: exemption to Most Favored Nations under GATT.
  - 99.5% without duty ? But actual, not potential
- To some part, became “Everything but arms”
  - 2001: EBA...everything free of duties from LCD
  - Transition periods for bananas, sugar & rice
  - Strict rules of origins
- Or SGP +
  - Even more open to some countries, conditional to democracy
    - Just right now, is being withdrawn from Sri Lanka
- With what effects ?
  - Smaller and smaller part of trade ([map](#))
  - No creation of an international division of labour organized around Europe (contrast with Asia)
  - Probably no effect on democracy (see the US and Madagascar)

# Trade (2) With other trading blocks

- Implication “tout azimuts” ? ([Map](#))
- Latin America
  - FTA agreement with MERCOSUR + associated countries
  - Negotiation since 1995, no agreement before Doha
- Asia
  - Asia-Europe meeting (ASEM) from 1996. Negotiation on FTA from 2007
  - Direct agreement with Korea in 2009
- In both cases, EU balances the US
  - Getting involved in the “spaghetti bowl” like the US ?
  - For the time being, only Turkey, Balkans, Euro-Med, Chile, South America and Mexico

# Trade (3) Multilateral trade negotiation

- Why is it useful even if you do not believe in free trade ?
  - Externalities to trade policies
  - Fixes the rules of negotiation
- Doha round: a development round?
  - Basically the agreement will be some industrial liberalization from the South against agricultural liberalization from the North
  - Agriculture
    - EU has duties (decided to do away with “trade-distorting” subsidies)
    - USA has subsidies... Not easy
  - The devil is in details for industrial liberalization
- But actually:
  - Most of the gains to trade in goods are already in
  - Services and migrations, that is something else
  - Each country mainly gains from its own liberalization
    - Including the South, especially as South-South trade increases

# Transition

- Trade
  - Certainly the prerogative of EU itself
  - Works, but cannot do by itself a lot of good
  - The South is anyway a secondary partner for Europe
- But linked to the issue of ACP countries, which is linked to national relations
  - To some extent, ACP agreements only worked because of France
  - A lot of the “advantages” were not that important
  - ... partly because of the opposition of member States
- Aid ?
  - Did Lomé fail because of conflicting interests impeding EU action ?

# Aid (1) Describing foreign aid

- Usual statistic: ODA (Official Development Assistance)  
% GNI (Gross National Income)
- History of ODA ([Graph](#))
  - Recently: around 100 bn \$
  - Was the highest in the early 60s: colonialism
  - Decline early 1990s: end of the Cold War
  - All that suggests that part of the aid is political-based...
- The role of Europe
  - European share higher than others
  - Increase in the late 1990s
  - 53% of all aid in 2005, 62% in 2006
  - The EU itself plays a small role
    - But growing: from 8% to 20% of European aid
  - Fragmented aid

# Aid (2) Quality of foreign aid?

- Huge debate about the quality of the aid
  - Difficult to measure ex-post
  - Ex ante ? Let us try four measures
- Multilateral / unilateral ? ([graph](#))
  - Multilateral has better reputation
  - Bureaucracies, not politics?
- Untied / tied ([graph](#))
  - Some aid is linked to buying obligation
- Grants / loans ([graph](#))
  - Some aid is composed of loans
  - Difficulties with high-debt countries

# Aid (3) Better aid

- How can one define “good” aid ?
  - Two important criteria
    - Public goods: things that benefit everybody
    - Basic goods that enhance “capabilities” (Sen)
  - Here, the list is based on the United Nation Development Program report and Millienium goals
- List of “good” aid
  - Equality and justice: Social services / Women
  - Market efficiency Banking and financial services / Structural adjustment
  - Environment
  - Health (including water access)
  - Education
  - Peace and security (including urgent aid)
- “Bad” aid
  - Population policies / production aid / transport / communication / food aid / energy / general ([Graph](#))
- But what about fungibility?

# Aid (4) Conditionality

- Europe seems to have a “better” aid
  - Yet, it does not seem to help development much...
  - Fragmentation?
  - Or little effect of aid in general? Econometric studies from the World Bank (Dollar)
- More conditionality ?
  - The idea is that aid can only be useful if it is linked with good governance
    - “Right” economic decisions (Washington consensus?)
    - Democracy / less corruption / etc...
  - Let us get to a qui pro quo
    - Ex-ante agreement (on promises)
    - It can be stopped if not respected (un-democratic, etc...)
  - More and more popular...
    - From the WB, IMF... to Europe

# Aid (5) The problem with conditionality

- First, you punish people for the behaviour of the governments
- Second, the governments know it
  - As a result, the threat is not credible
  - Example of Kenya conditional loans and the privatisation of the railways
- Third, it does not seem to work...
  - Move to microeconomic evaluation studies
- Europe is no better than others
  - The role of foreign aid has always been a disappointment
  - Planners and Searchers (Easterly)
    - The need to move to ex-post accountability?
  - Development cannot be imposed...

# Aid (6) Judging the agencies

- Easterly and Tobia
- Fragmentation ? Many aid projects are too small...
  - Fixed costs for aid project (paperwork, reviews...)
  - Need to save on expert knowledge
- Selectivity ?
  - Is aid going to poor countries or to corrupt and autocratic ones ?
- Ineffective channels
  - Tied aid, food aid, technical assistance
- Overhead
  - Cost of employees for each \$ of aid provided
- Transparency
  - How easy was it to get these data?

*Table 5*  
**Ranking of Donor Agencies on Best Practices in Aid**

Donor	Rank of average rank	Average percentile ranking on each type of aid best practice (higher rank means better aid practice)					Average percent rank
		Fragmentation	Selectivity	Ineffective channels	Overhead	Transparency	
IDA	1	51%	76%	87%	71%	100%	77%
United Kingdom	2	54%	72%	61%	76%	95%	72%
African Dev. Bank	3	49%	84%	87%	45%	90%	71%
Asian Dev. Bank	4	76%	46%	87%	48%	95%	70%
IDB	4	88%	41%	84%	56%	82%	70%
Norway	6	34%	38%	71%	97%	69%	62%
Sweden	7	39%	39%	74%	63%	90%	61%
Japan	8	61%	48%	42%	86%	62%	60%
Switzerland	9	63%	53%	81%	49%	51%	59%
Portugal	9	100%	50%	35%	86%	23%	59%
France	9	73%	53%	26%	62%	79%	59%
Australia	12	80%	45%	3%	79%	82%	58%
UNICEF	13	71%	57%	87%	32%	26%	55%
Belgium	14	83%	46%	32%	29%	74%	53%
Italy	15	46%	34%	16%	98%	49%	49%
United States	16	66%	20%	0%	59%	87%	46%
Austria	16	78%	39%	13%	35%	67%	46%
Ireland	16	59%	53%	77%		41%	46%
Nordic DF	16	56%	88%		79%	5%	46%
Netherlands	20	15%	56%	55%	37%	64%	45%
Canada	21	20%	61%	19%	45%	77%	44%
Denmark	21	44%	52%	52%	16%	56%	44%
Finland	23	24%	33%	39%	70%	38%	41%
Luxembourg	24	37%	70%	48%	37%	10%	40%
UNRWA	25	98%	23%		59%	13%	39%
IMF SAF & ESAF <sup>a</sup>	26	85%	70%		9%	26%	38%
Germany	27	27%	46%	29%	17%	59%	36%
CariBank	28	90%	49%		25%	13%	35%
EC	29	22%	47%	58%		36%	33%
EBRD	30	68%	41%		31%	13%	31%
GREECE	31	93%	7%	6%		41%	29%
UNDP	32	5%	60%		2%	72%	28%
SPAIN	33	32%	50%	10%		41%	27%
NEW ZEALAND	34	41%	40%	23%		26%	26%
UNFPA	35	2%	54%	45%	11%	3%	23%
IFAD (UN)	36	7%	69%		19%	5%	20%
WFP (UN)	37	10%	55%	0%	0%	26%	18%
GEF	37	29%	51%		9%	0%	18%
UNHCR	37	17%	53%		5%	13%	18%

*Note:* Duplicate numbers occur in the rankings when two or more countries have the same score and "tie" for some rank; this also explains missing ranks, for instance, no 5<sup>th</sup> place.

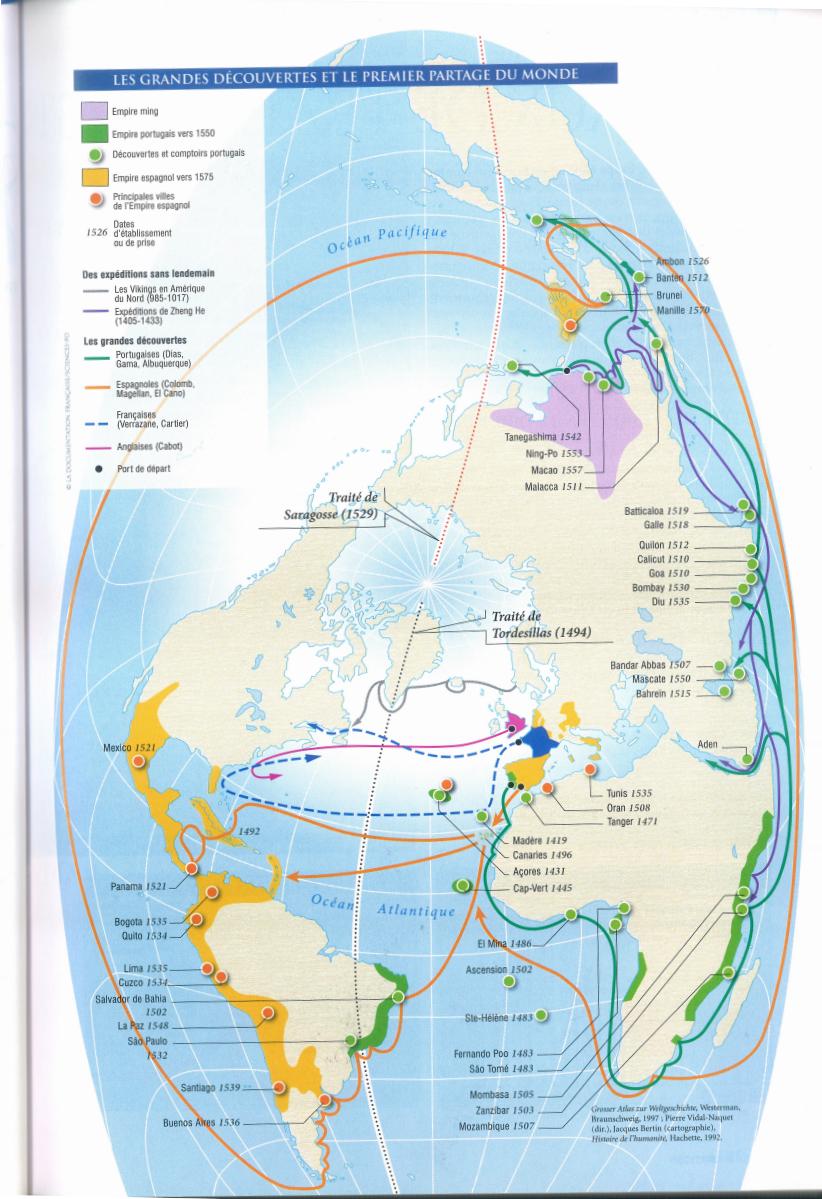
<sup>a</sup> Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF).

# Conclusion

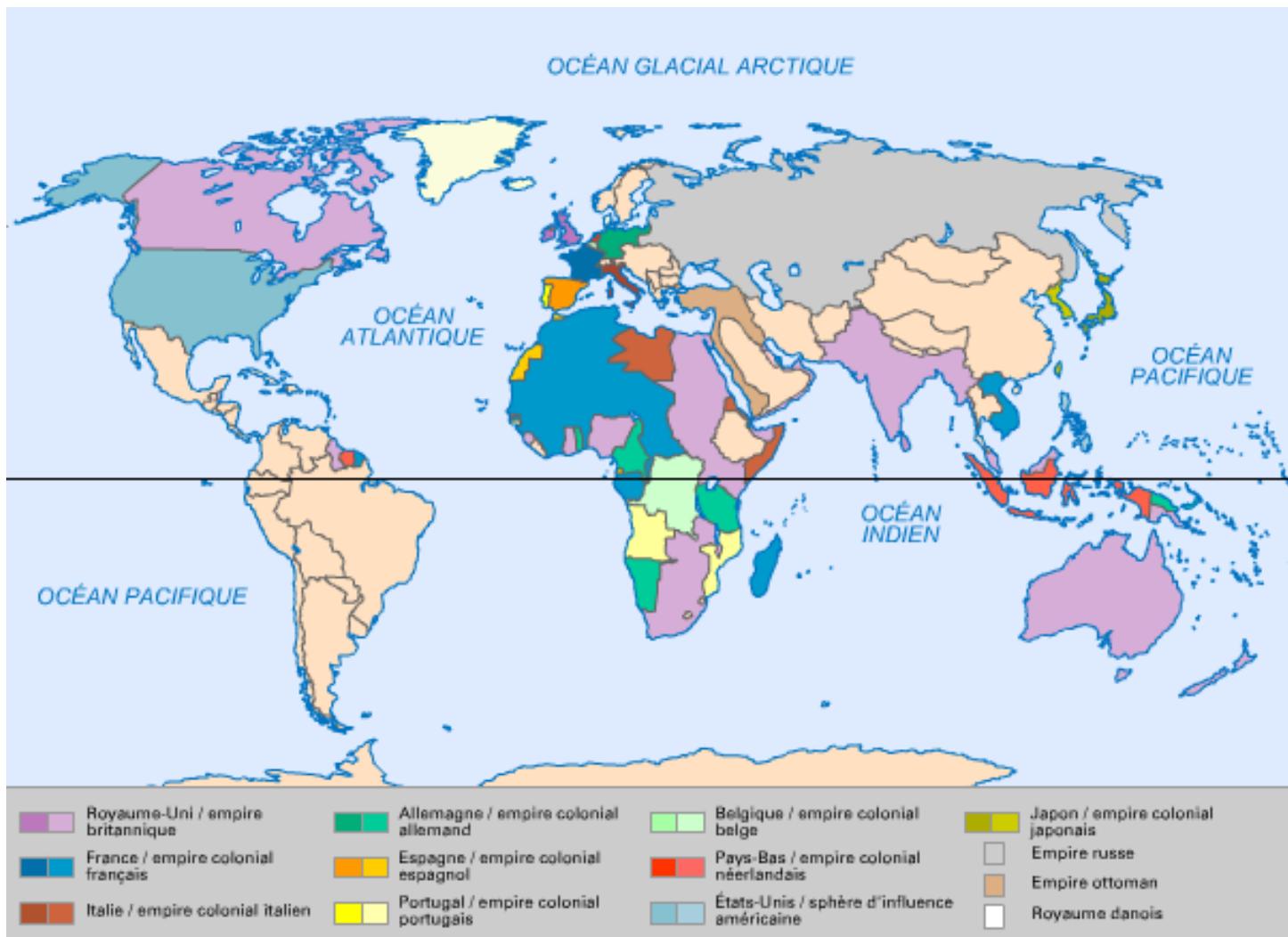
- What we have done
  - Institutional setting of Europe economic relations with the South :
    - Putting colonial empires in common ?
    - And phasing them out...
  - Trade :
    - The EU at the forefront
    - Stuck in Doha
  - Aid :
    - Countries at the forefront
    - Relatively “high quality” aid – as far as we can measure it / But is it useful?
- So ?
  - Europe has active relations with the South...
    - But it is not certain they are going anywhere
  - Contrast with the positive role through integration: a role though exemplarity and encouragement to a change of institutions ?
    - After having had probably a bad role in shaping institutions during the colonial period
  - A middle ground for the Mediterranean : Barcelona (from 1995)
    - Linked with Mediterranean Union (2007) => Union for the Mediterranean (2008)
    - A mix of North-South and enlargement? / Except it does not seem to work...

# Voyages of discovery and early empires (15<sup>th</sup>-16<sup>th</sup> c.)

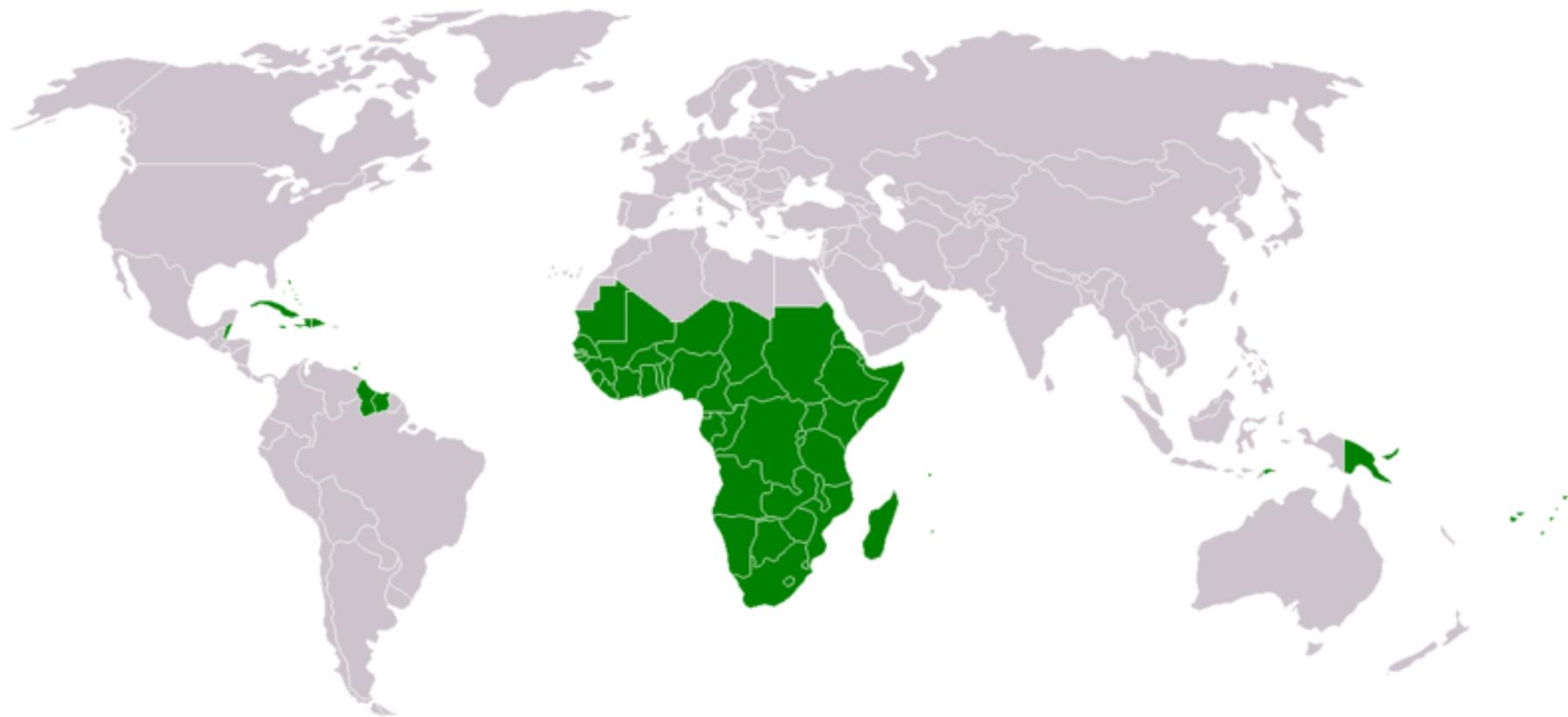
## (back)



# Early 20<sup>th</sup> century empires (back)

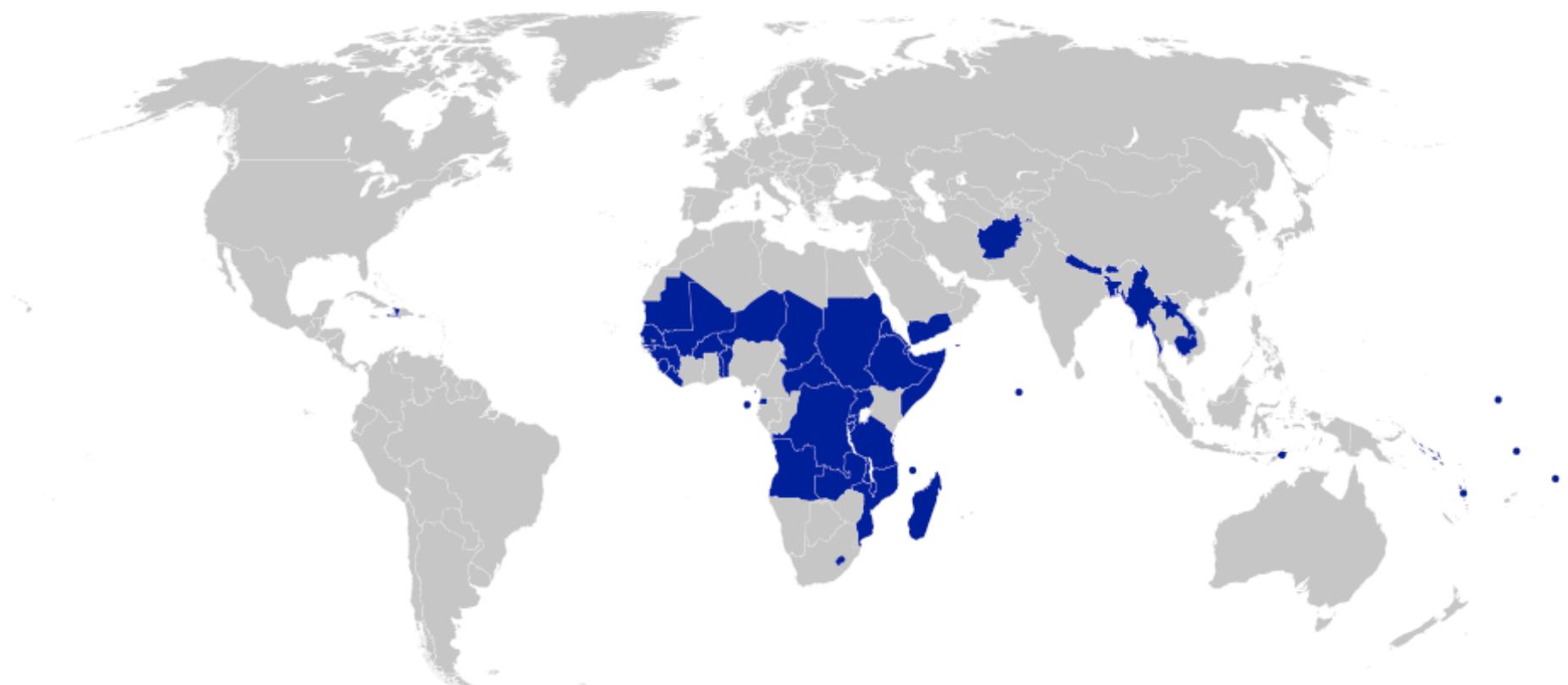


# ACP countries (back)

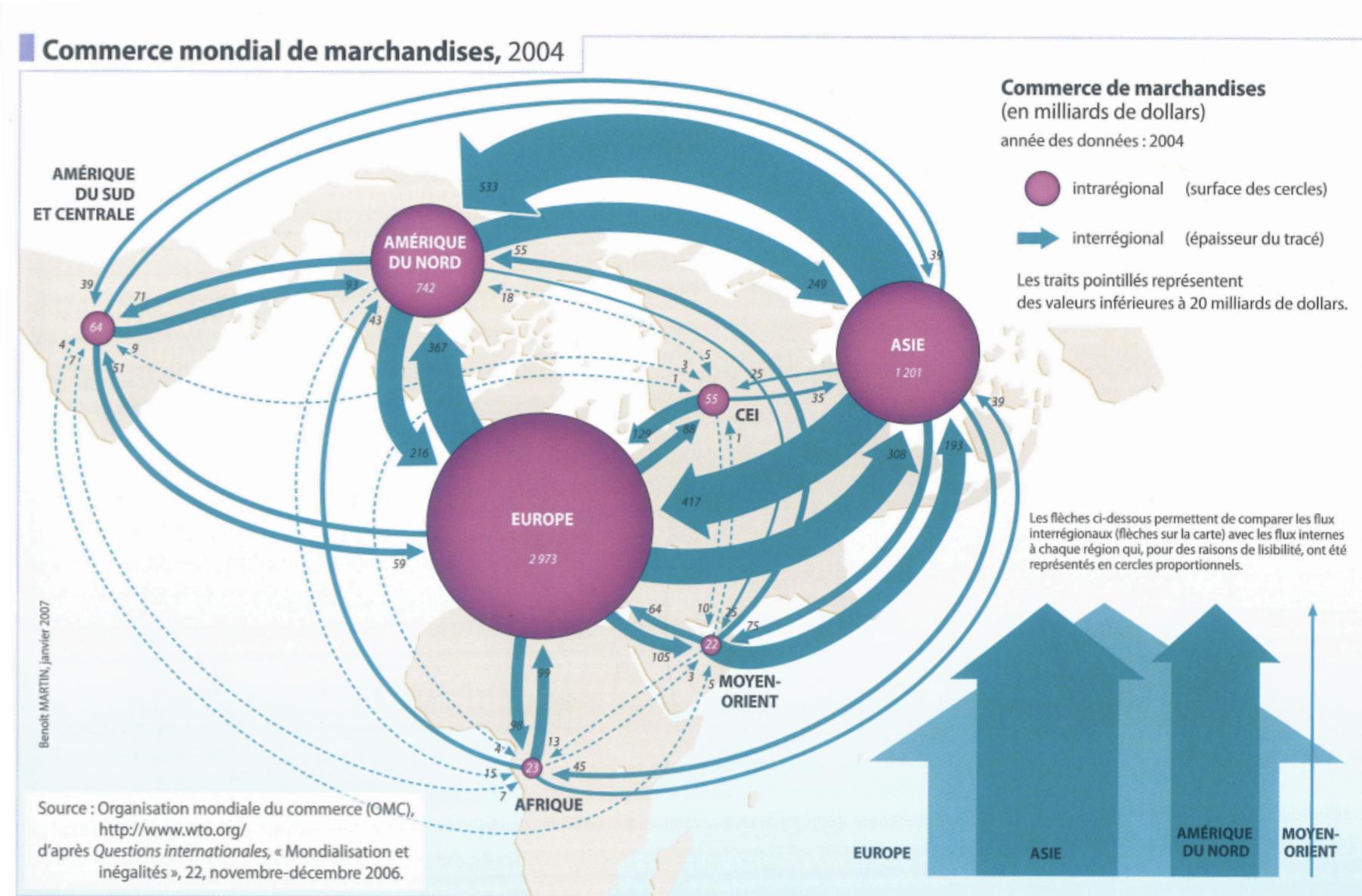


# Least Developed Countries 2009

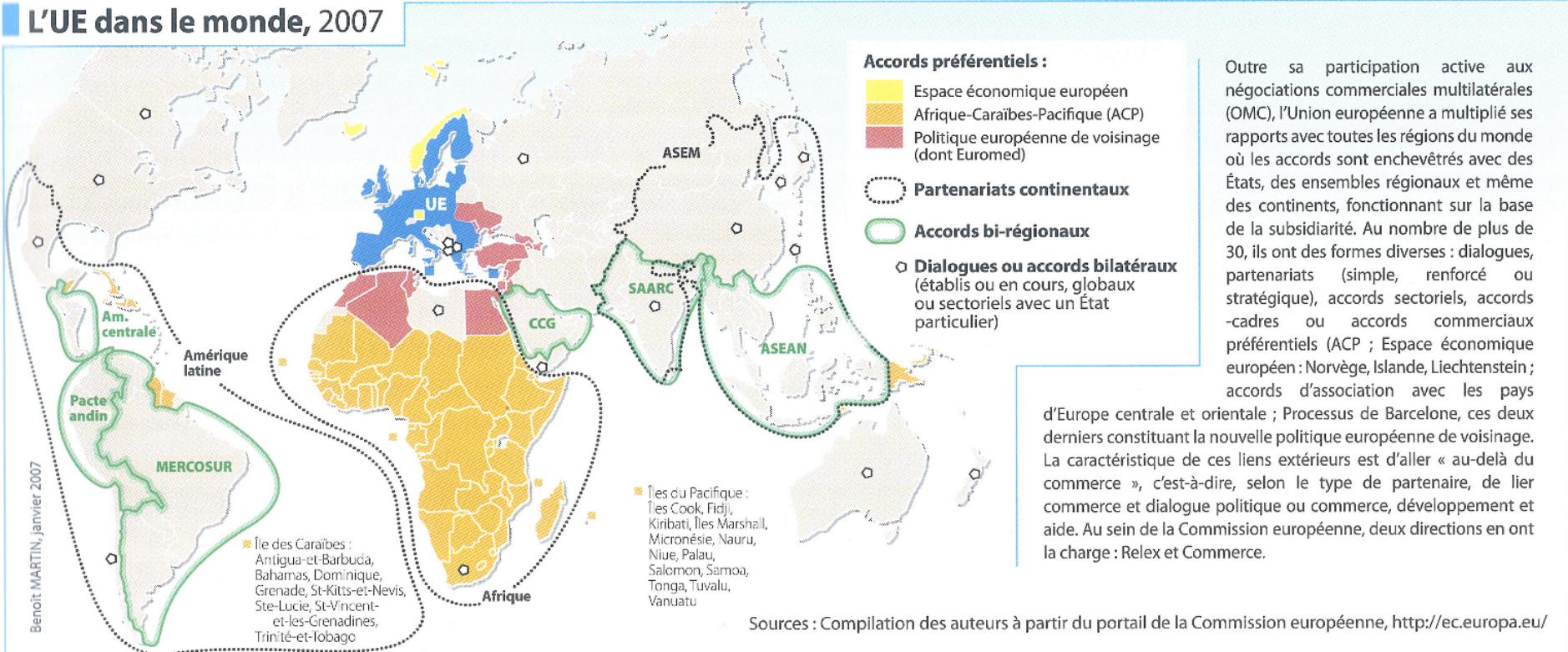
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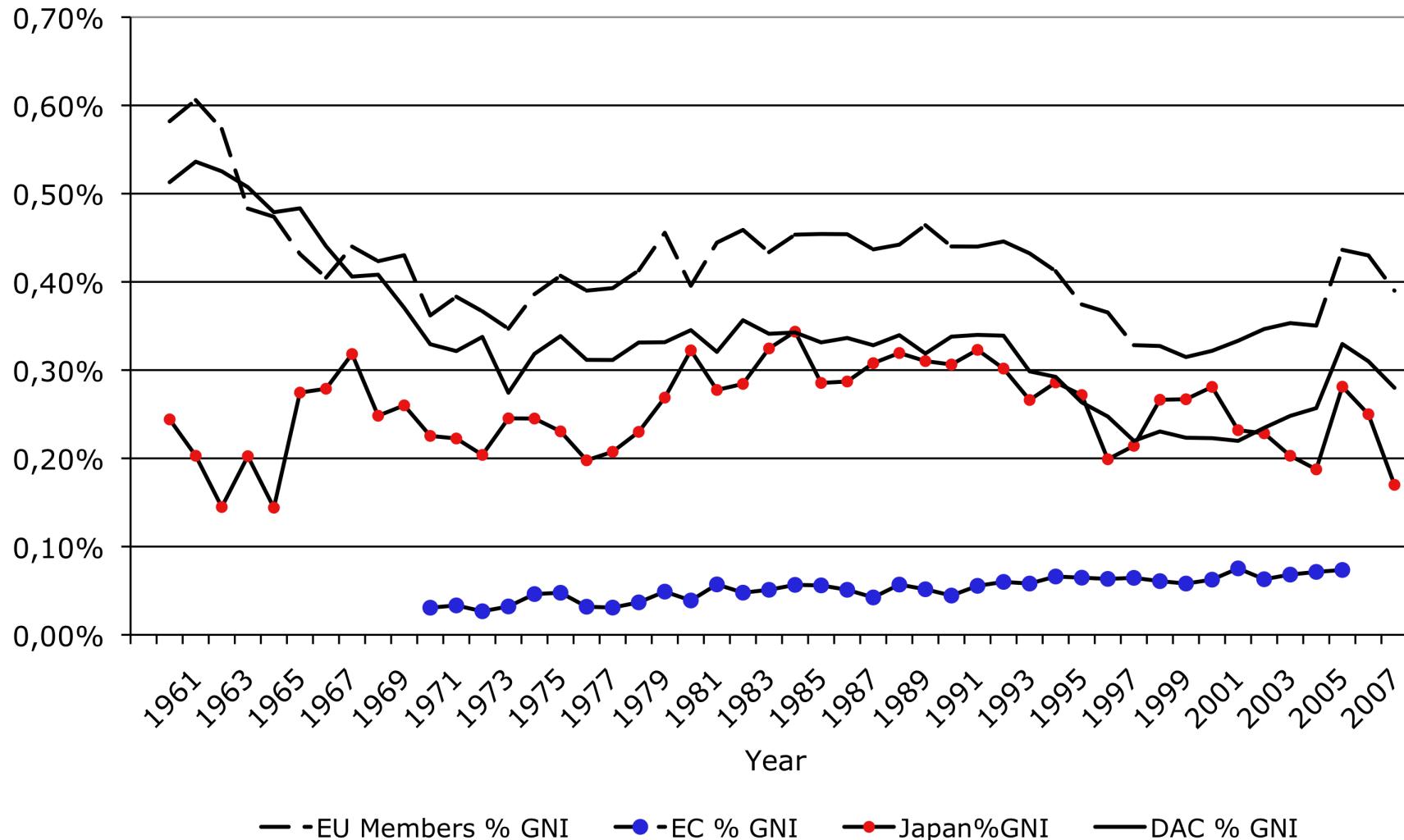
# The South in World Trade (back)



# The EU is discussing with everybody... ([back](#))

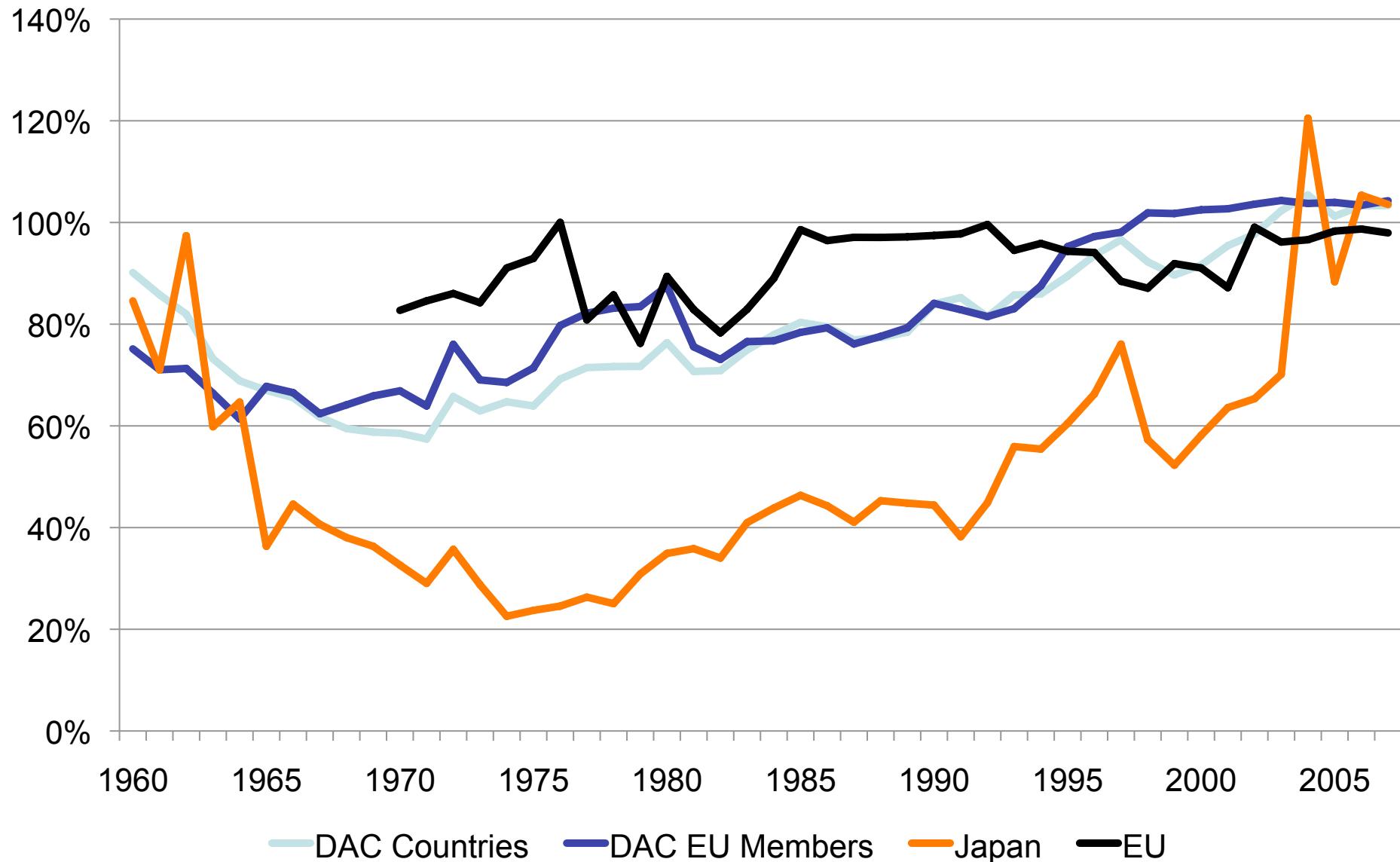


# Relative size of ODA

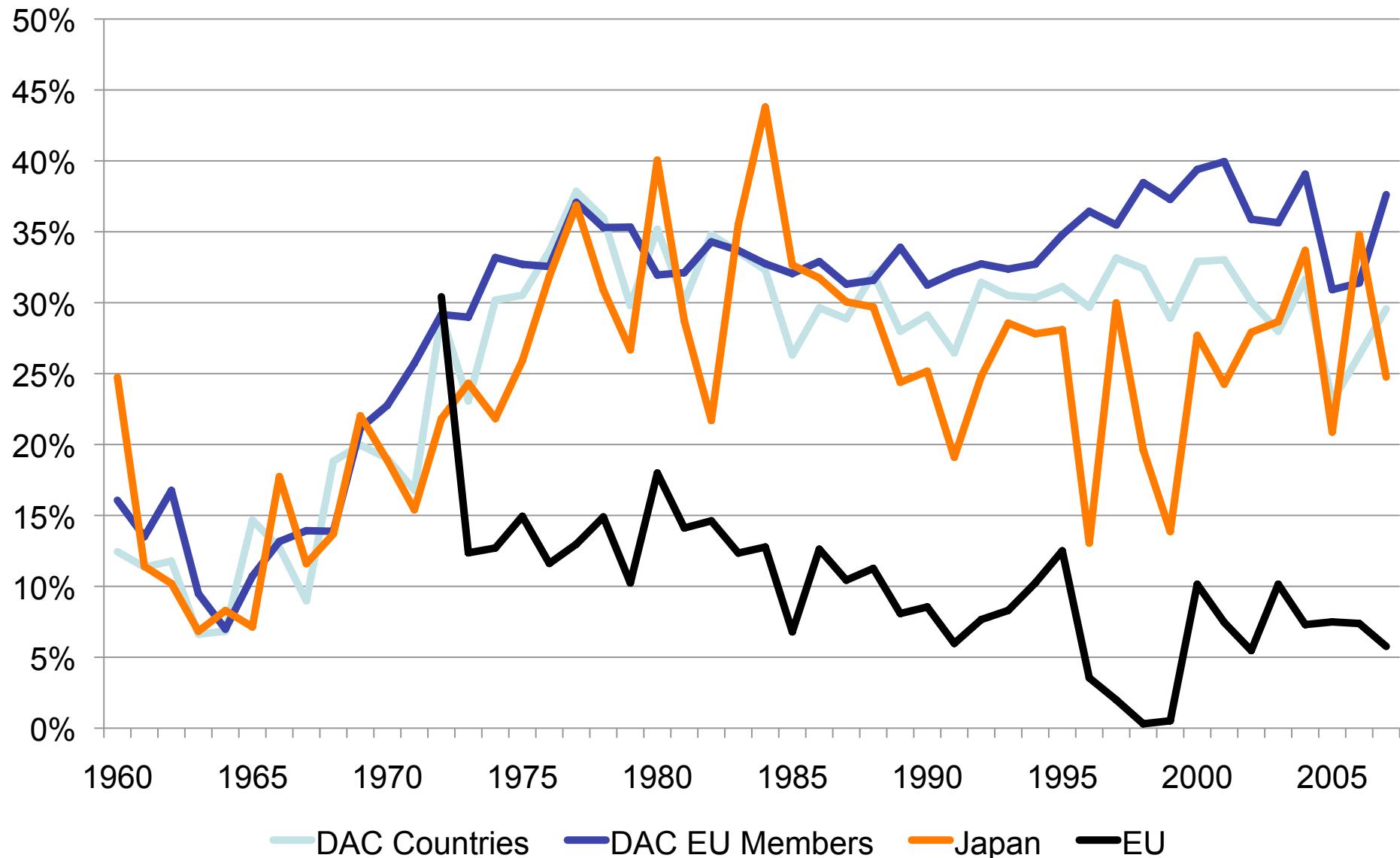


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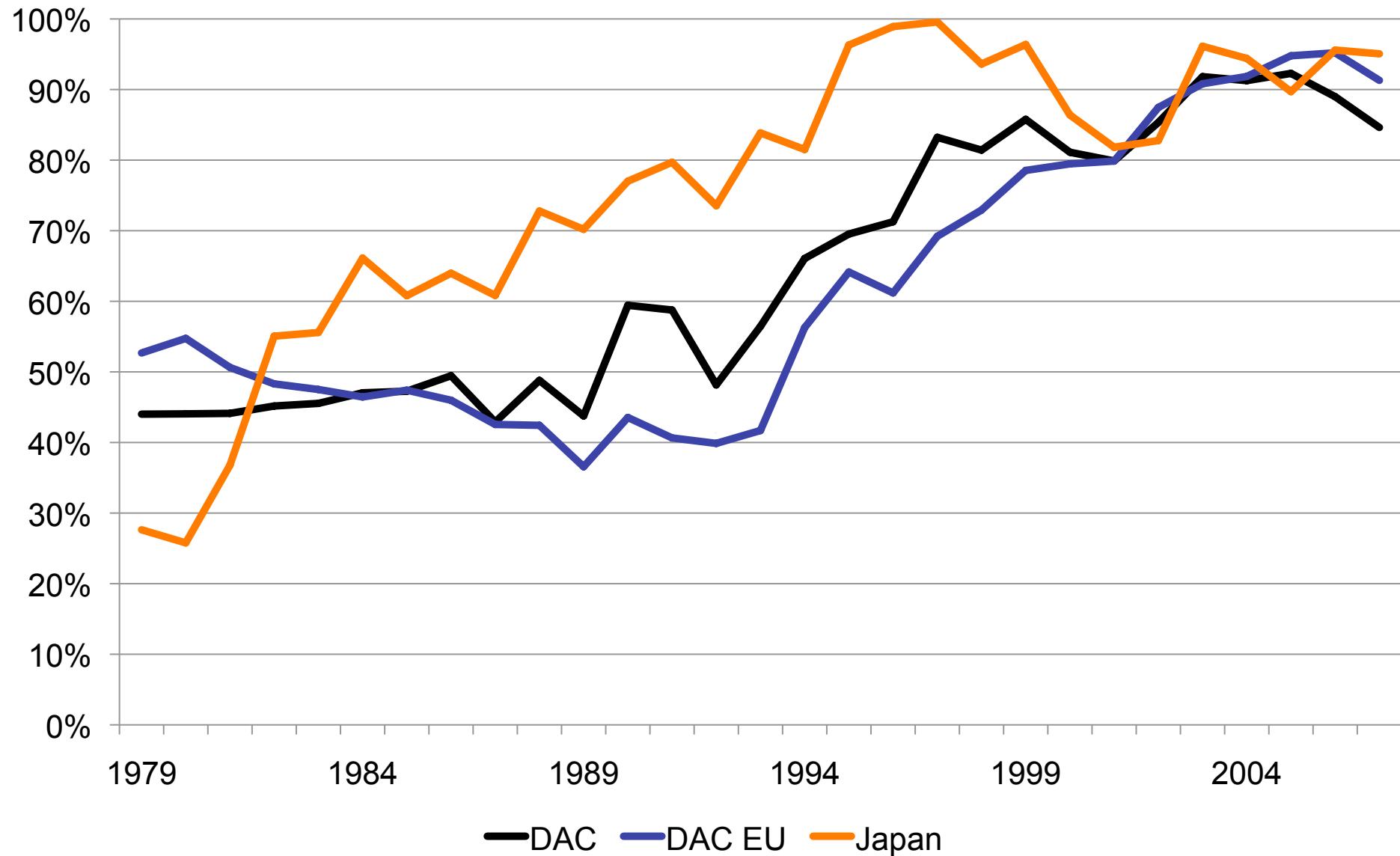
# Share of grants (back)



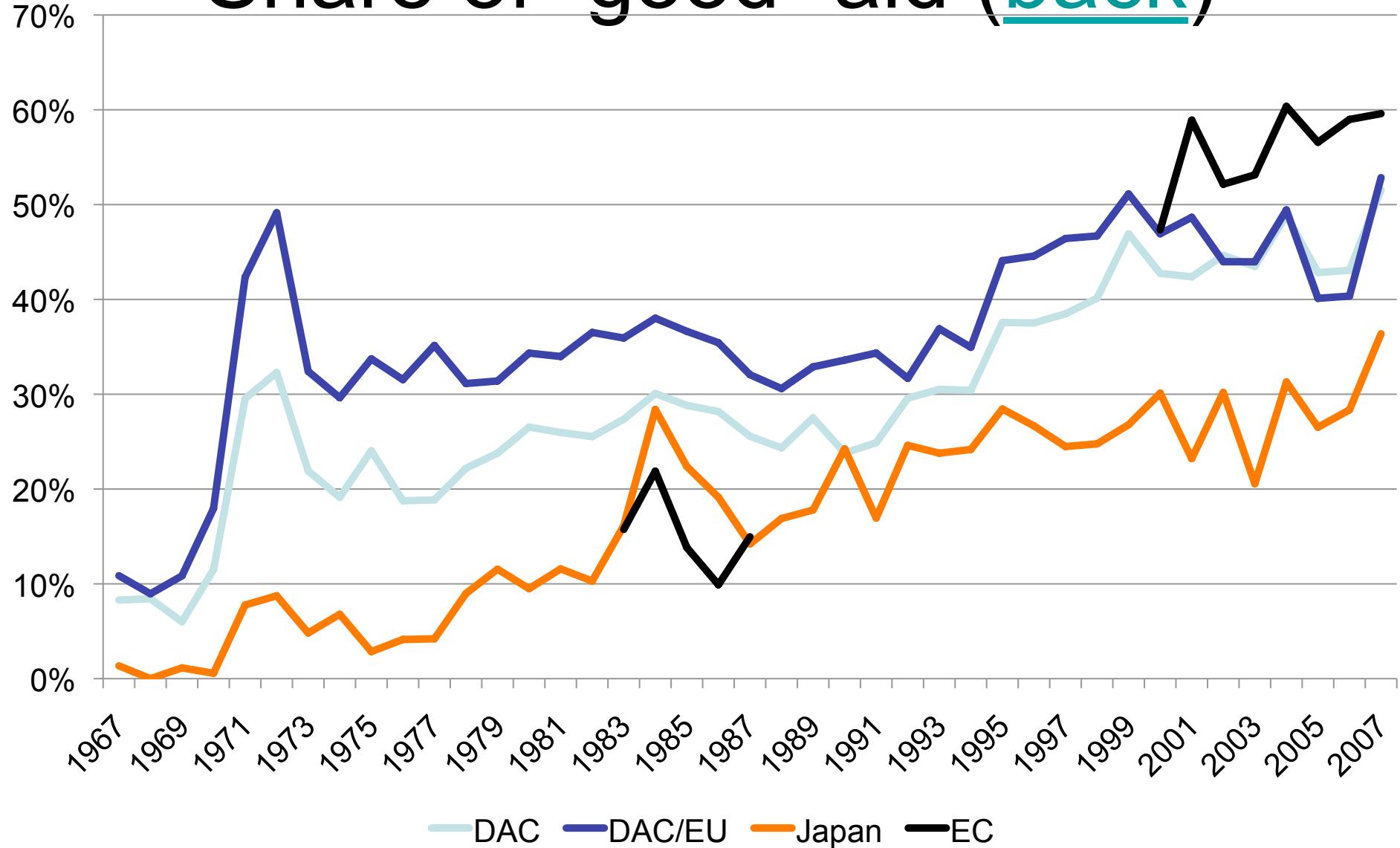
# Share of multilateral aid (back)

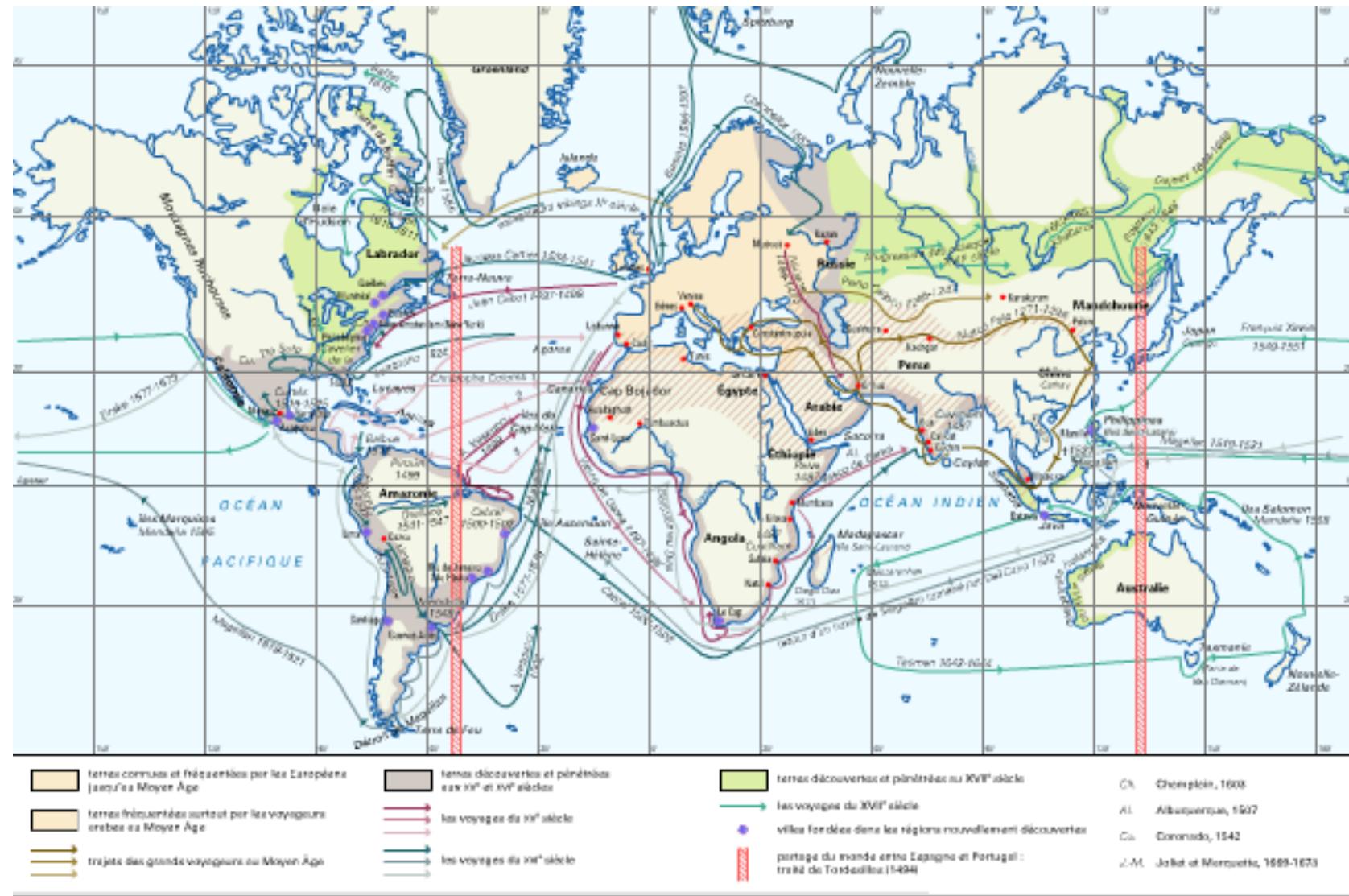


# Share of untied aid (back)



# Share of “good” aid (back)





# Sources

- William Easterly and Tobias Pfutze, “Where Does the Money Go? Best and Worst Practices in Foreign Aid,” *Journal of Economic Perspectives* 22, no. 2.