

# Economic relations between Europe and the South

Guillaume Daudin

[guillaume.daudin@sciences-po.fr](mailto:guillaume.daudin@sciences-po.fr)

Sciences-Po

European Studies Program

2010

# 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 or 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**

<i>Donor</i>	<i>Rank of average rank</i>	<i>Average percentile ranking on each type of aid best practice (higher rank means better aid practice)</i>					<i>Average percent rank</i>
		<i>Fragmentation</i>	<i>Selectivity</i>	<i>Ineffective channels</i>	<i>Overhead</i>	<i>Transparency</i>	
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).

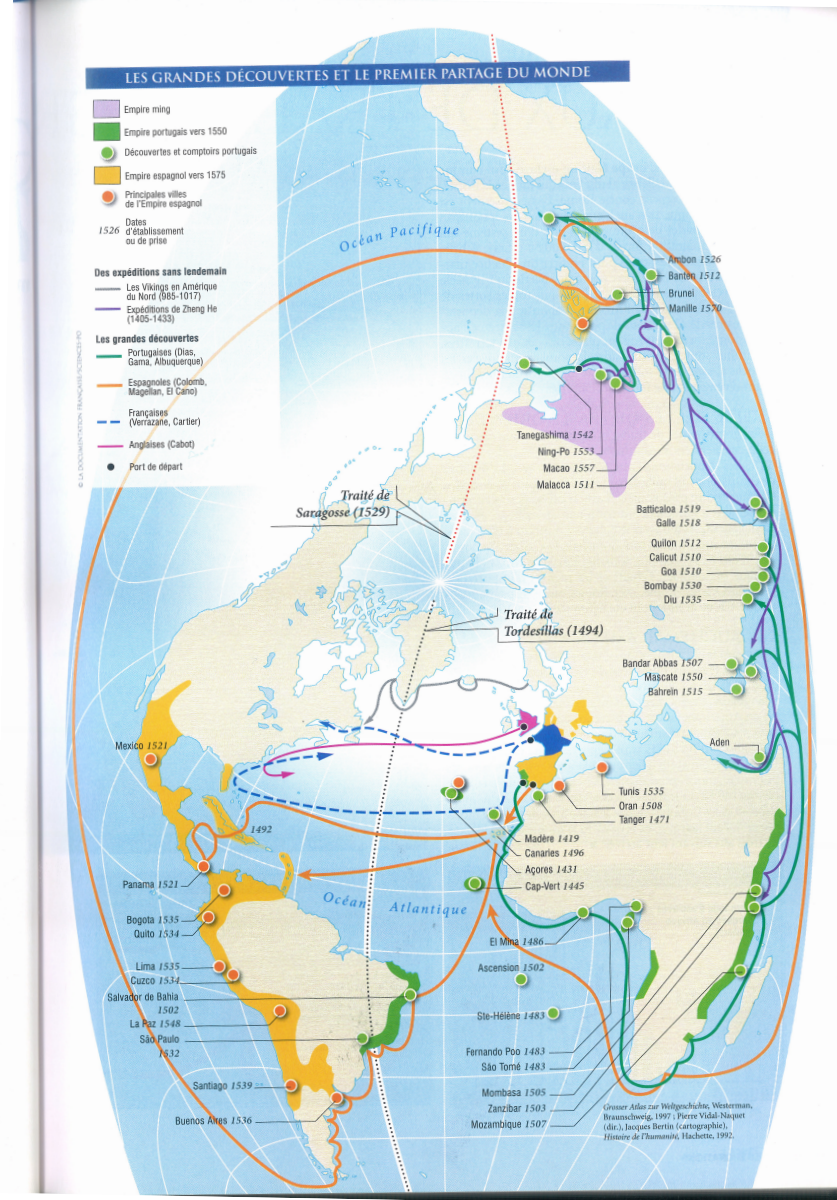
# Conclusion

- 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...

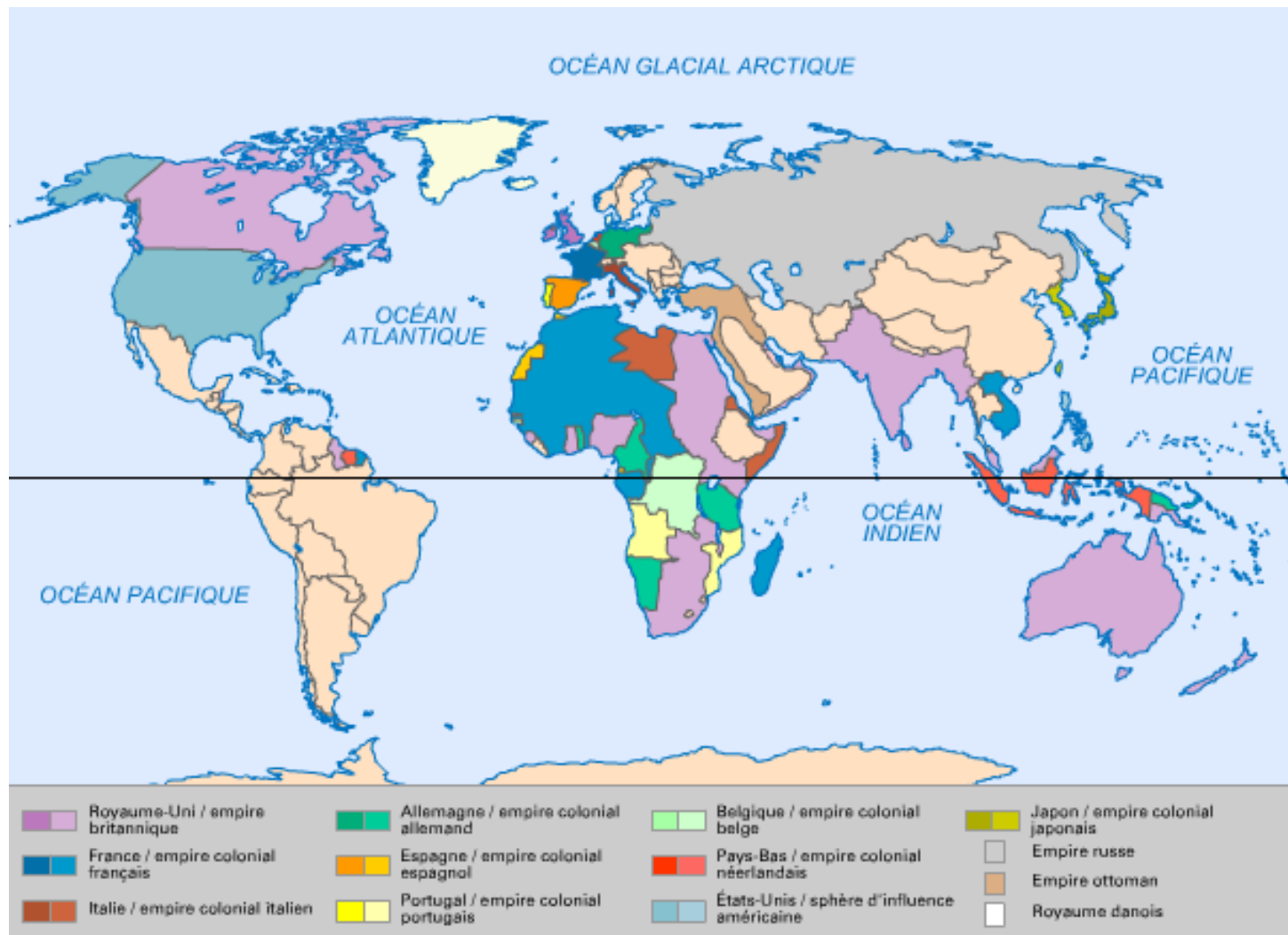


# Voyages of discovery and early empires (15<sup>th</sup>-16<sup>th</sup> c.)

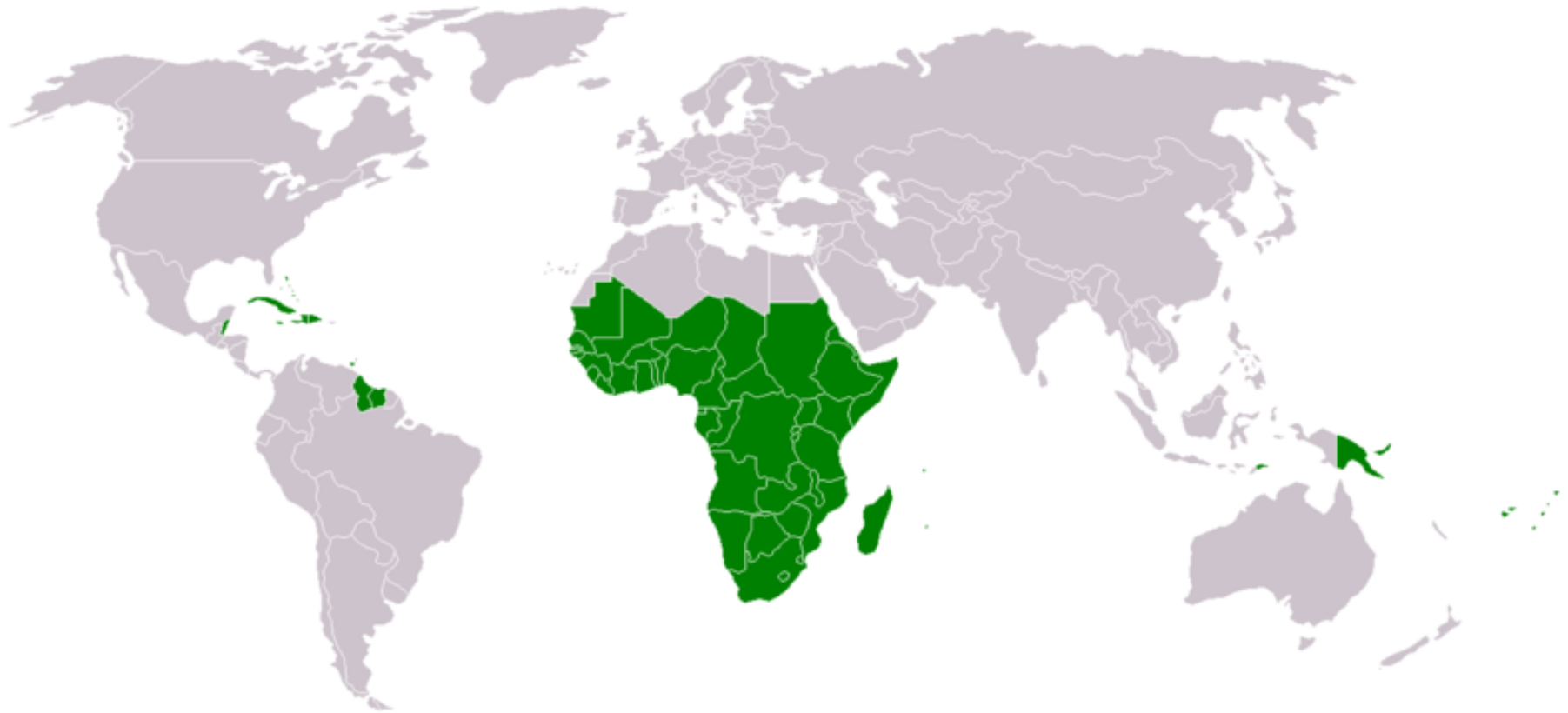
## (back)



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

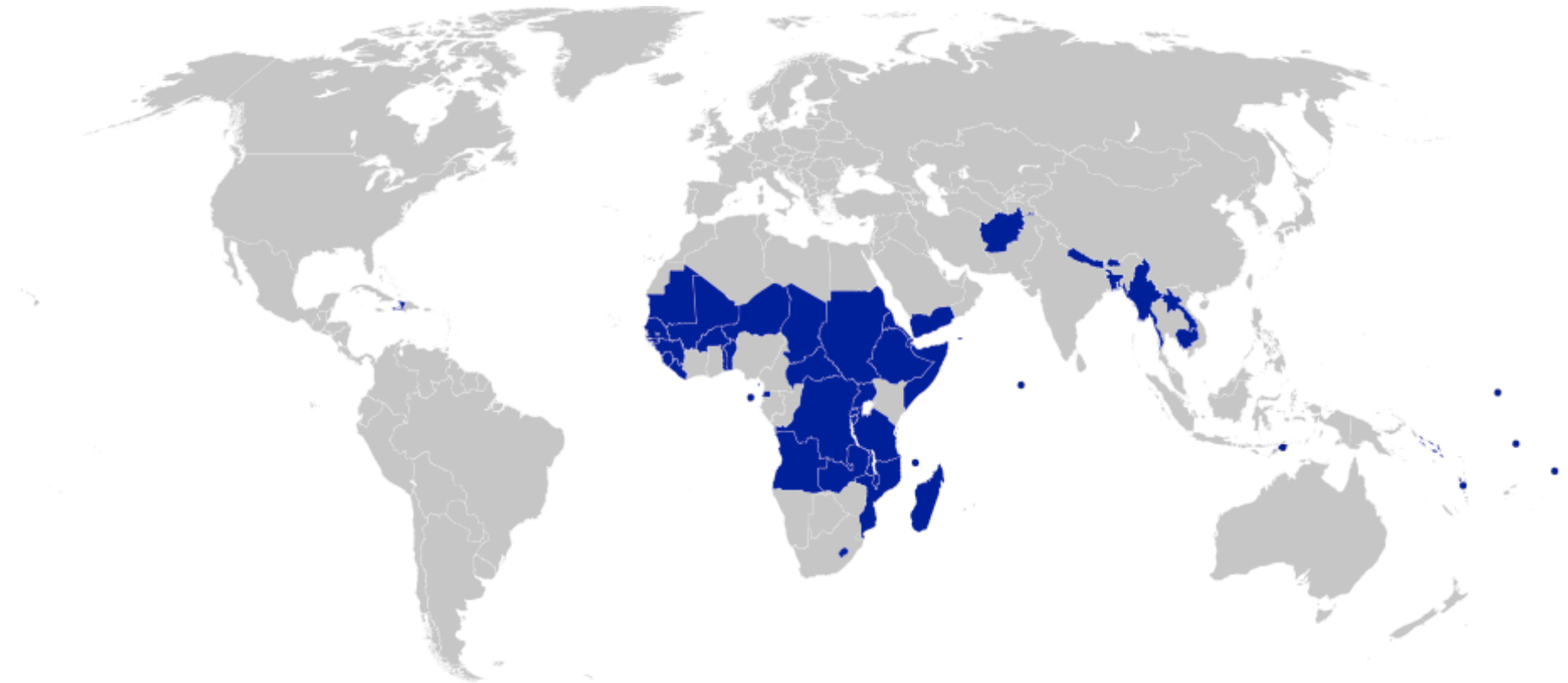


# ACP countries ([back](#))



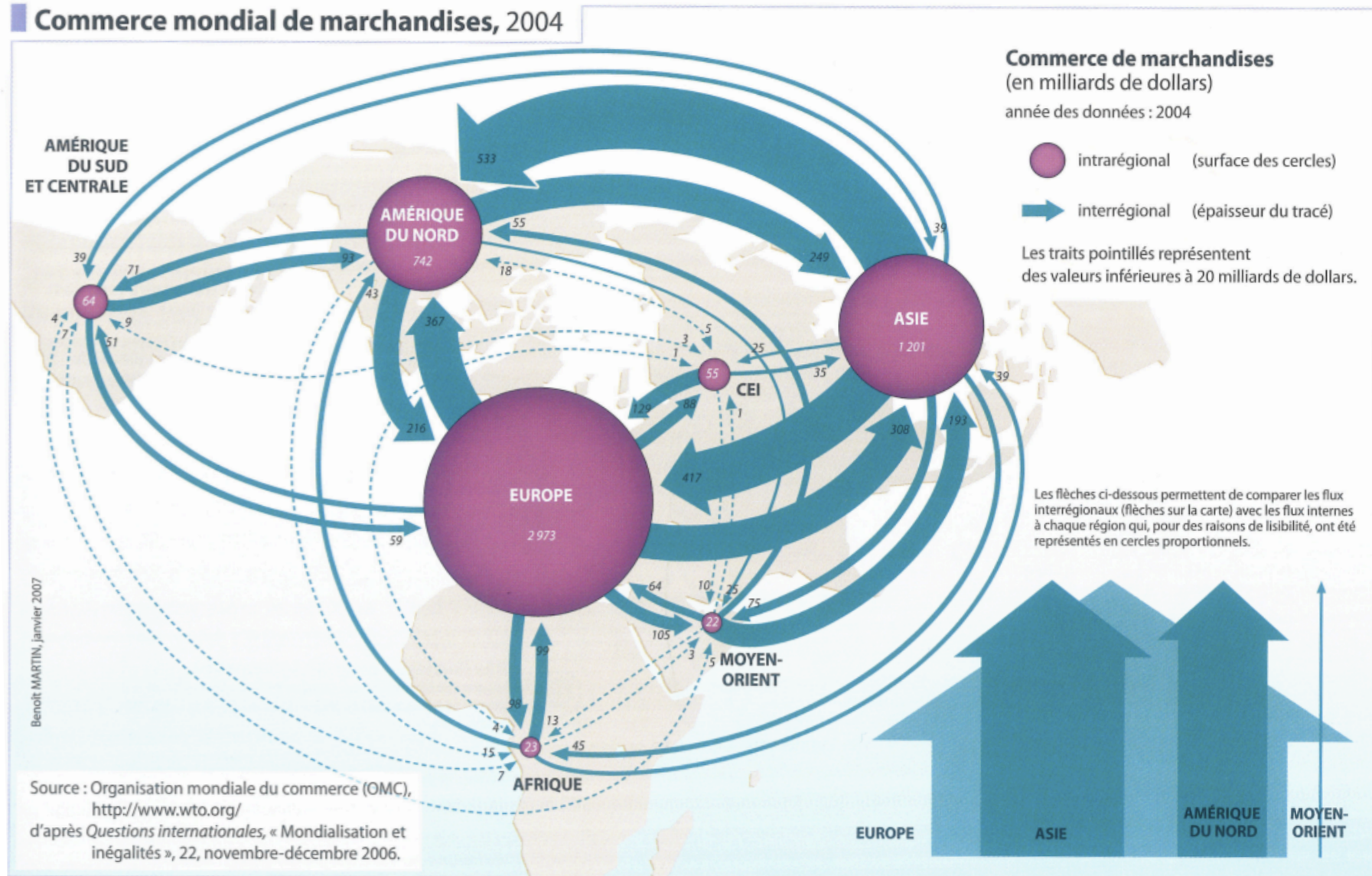
# Least Developed Countries 2009

([back](#))

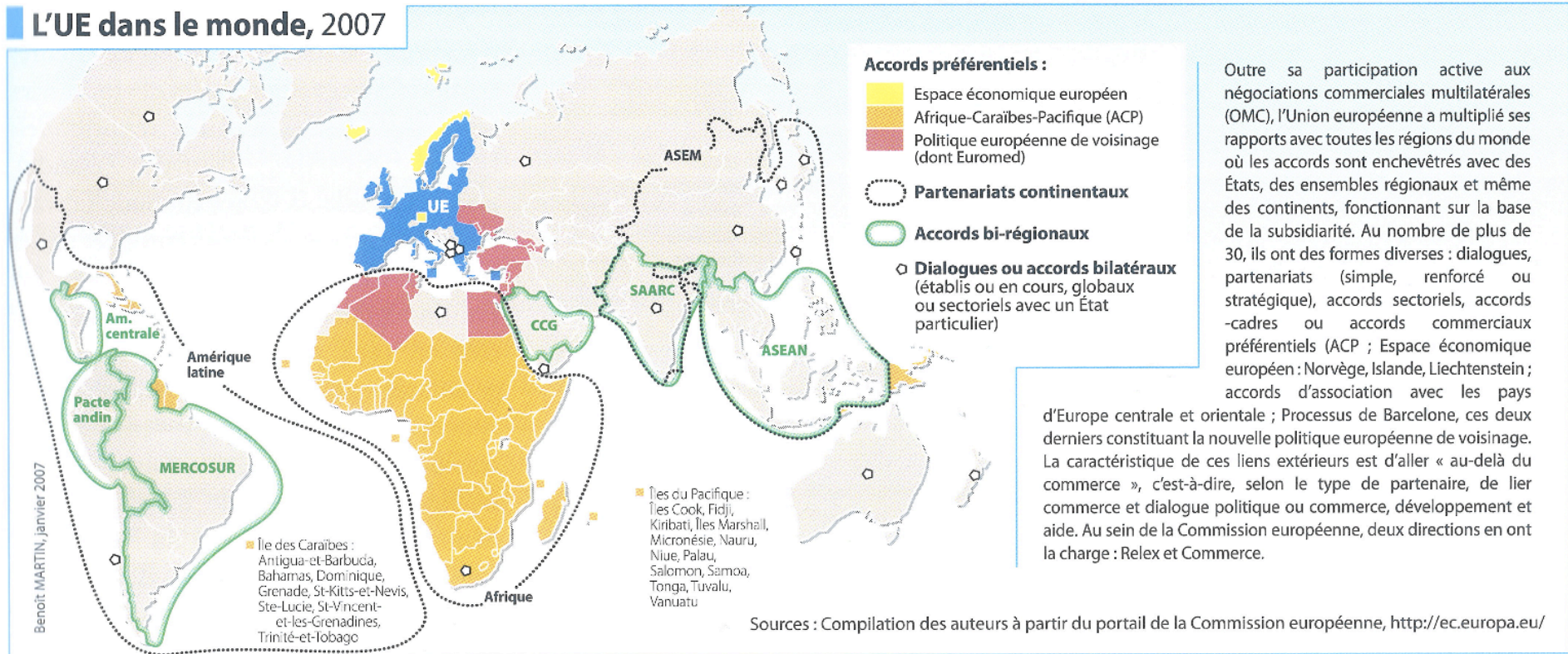




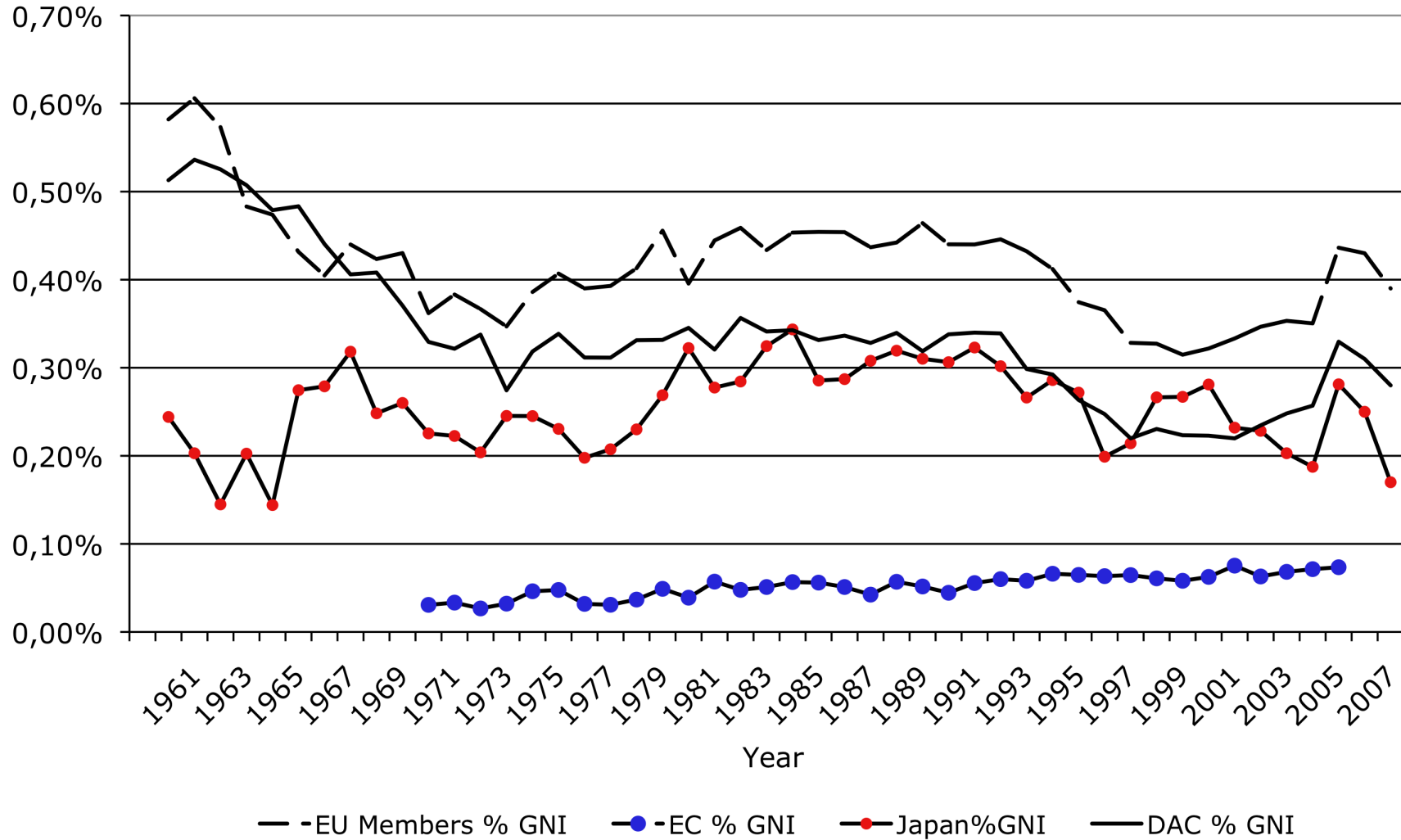
# The South in World Trade (back)



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



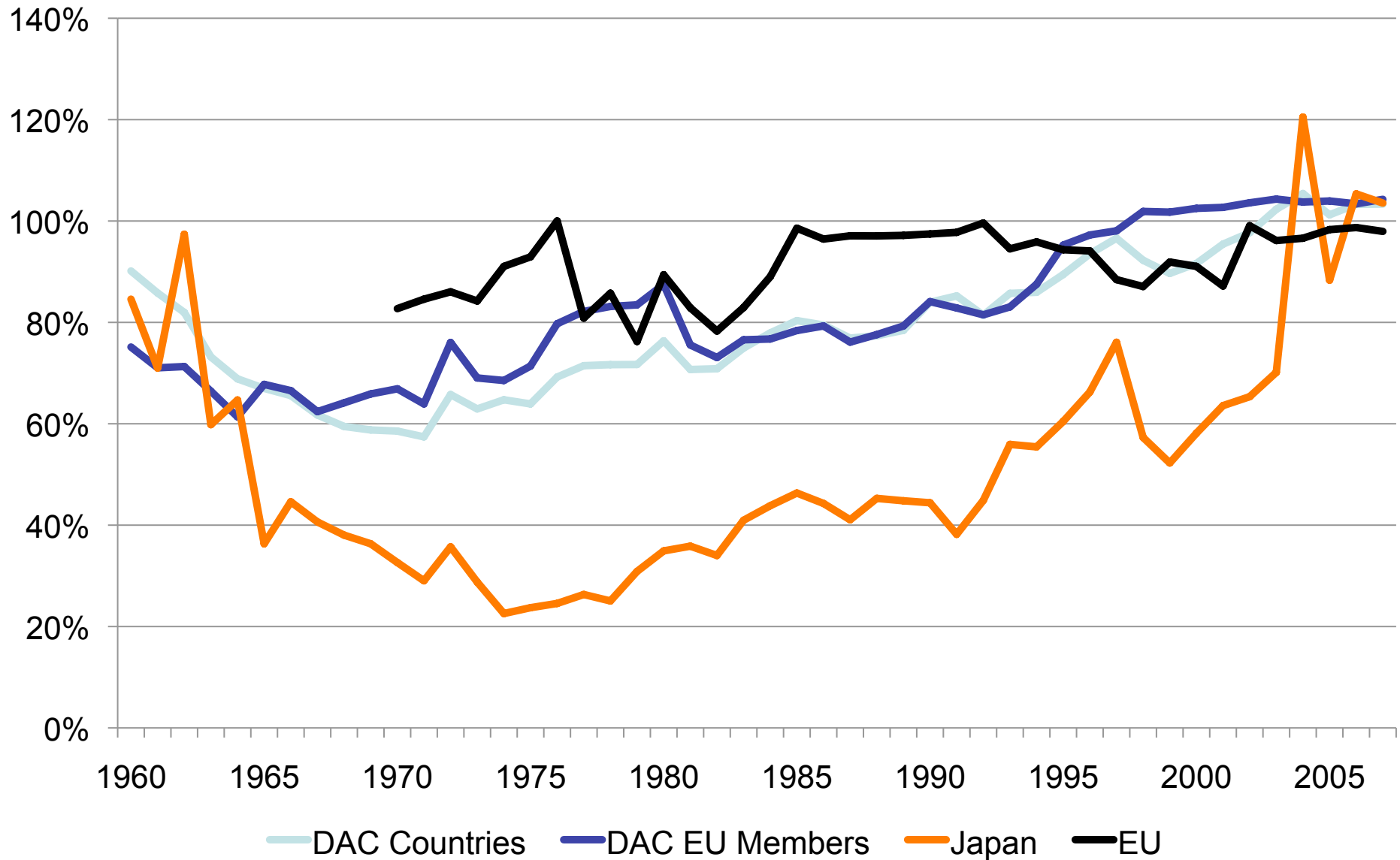
# Relative size of ODA



[Back](#)

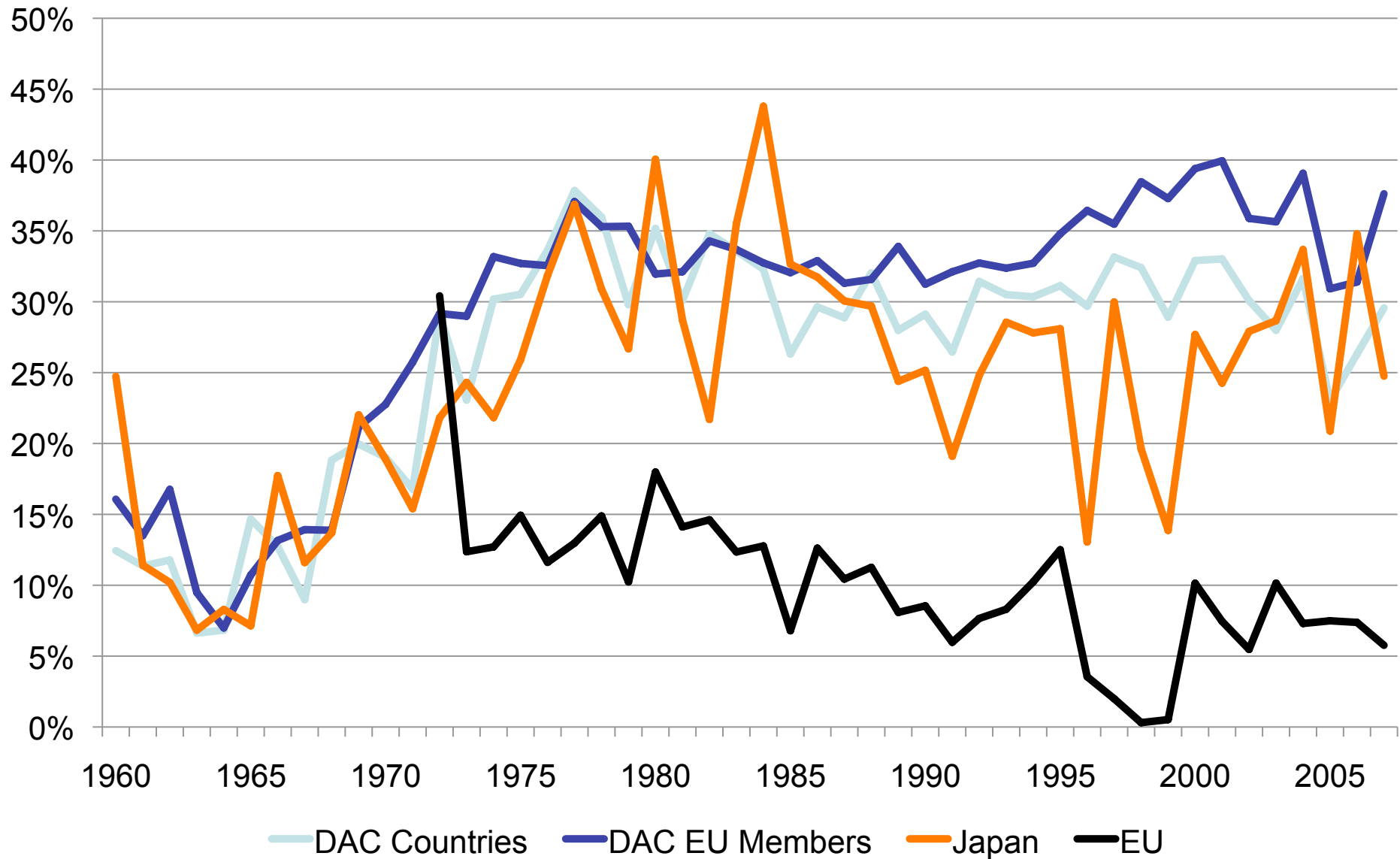


# Share of grants ([back](#))

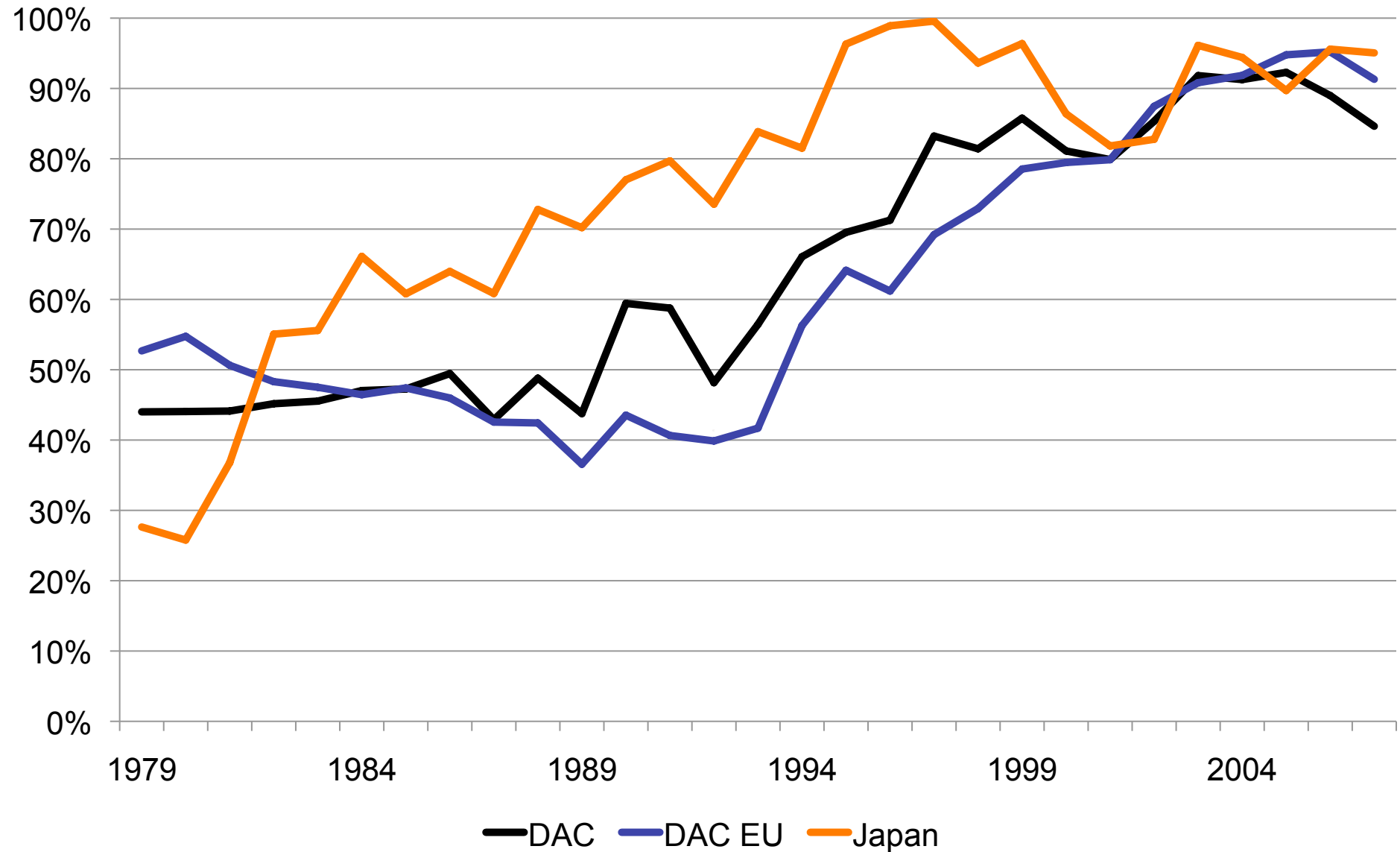




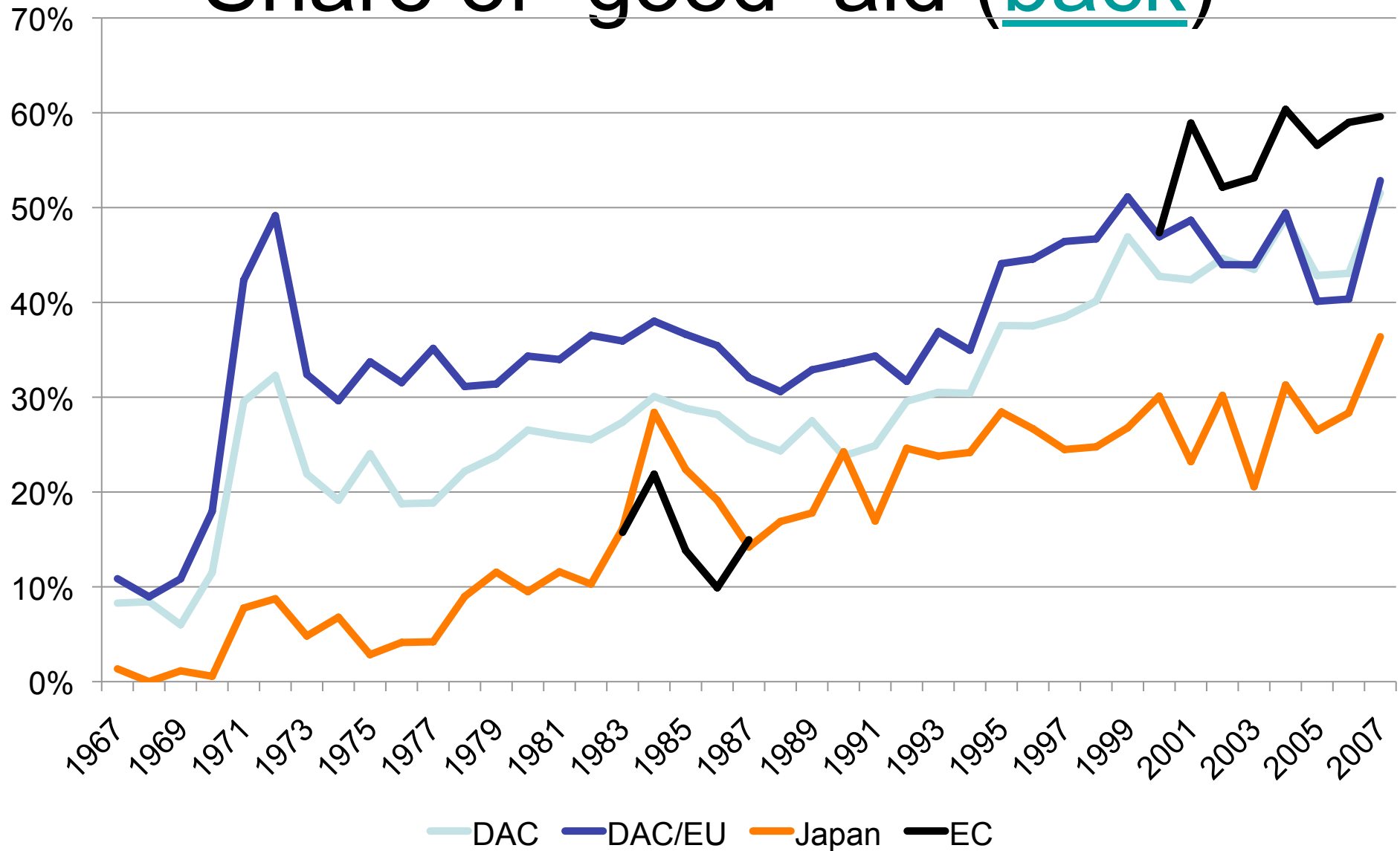
# Share of multilateral aid ([back](#))



# Share of untied aid ([back](#))



# Share of “good” aid (back)





- |  |  |   |   |
|--|--|---|---|
| terres connues et fréquentées par les Européens jusqu'au Moyen Âge | terres découvertes et pénétrées aux 15 <sup>e</sup> et 16 <sup>e</sup> siècles | terres découvertes et pénétrées au 17 <sup>e</sup> siècle | partage du monde entre Espagne et Portugal : traité de Tordesillas (1494) |
| terres fréquentées surtout par les voyageurs arabes au Moyen Âge   | les voyages du 15 <sup>e</sup> siècle  | les voyages du 17 <sup>e</sup> siècle                     | villes fondées dans les régions nouvellement découvertes                  |
| trajets des grands voyageurs du Moyen Âge                          | les voyages du 16 <sup>e</sup> siècle  |   |   |

- Ch. Christophe, 1608
- Al. Albuquerque, 1507
- Co. Coronado, 1542
- J.M. Joliet et Marquette, 1689-1693

# 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.