"THE EUROPE AGREEMENTS AND EC-LDC RELATIONS"

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Printed at INSEAD, Fontainebleau, France
The Europe Agreements And EC-LDC Relations*

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Abstract

The paper considers the implications of recent changes in the EC relationship with the Central & Eastern European Countries (CEECs) for the EC's traditional links with ACP countries. After reviewing some important aspects of the trade regime implemented by the Lomé Convention, the paper analyzes the Europe Agreements signed in 1991 between the EC and the CEECs, showing that they give only marginal trade preference to the CEECs. The paper also considers FDI and aid flows and argues that there is up to now little evidence of a massive redirection of the flow of funds from the EC to the CEECs and away from the ACPs.

* An earlier version of this paper prepared for the workshop on EU-LDC Trade and Capital relations held on May 16 and 17 at the Netherlands Economic Institute in Rotterdam. We thank J. Kol, N. Mbiri and seminar participants for comments, and the CEPR for partial support for funding of earlier work on which this paper draws. The views are those of the authors, not those of their institutions. We keep entire responsibility for all remaining errors.
Non-technical summary

The demise of the CMEA, the crumbling of the Soviet Union, and the recently signed Europe Agreements (EAs), mark a watershed in international relations and in the economic relations between OECD countries and the former socialist countries, particularly the Central and East European Countries (CEECs). This systemic change could also have profound repercussions on traditional economic ties between developed and developing countries. On the one hand, new opportunities for trade and investment have arisen with the CEECs. On the other hand, the development of trade and aid relations with the CEECs is bound to have some repercussions on the EC's traditional links with the Less Developed Countries (LDCs) embodied in what is usually referred to as the Lomé convention.

This paper reviews the evolving EC-LDC relationship in the light of these changes, with particular focus on French interests in the relationship. It argues that the Treaty of Rome Association, followed by the following Yaoundé and Lomé Conventions provided benefits to both sides, but mostly on the international relations and political fronts. On the EC side, the benefits of the EurAfrican relationship provided a continuity to the colonial ties and some political stability in the smooth economic and political relations with the former colonies; at the same time, the ACPs have been the suppliers of crucial raw materials. On the ACP side, beyond the direct benefits of aid which helped political elites hold power, economic benefits arising from preferential access to the EC market have been at best small.

The paper argues that the non-reciprocal and preferential trade regime fostered in the EC-ACP relationship has been potentially detrimental to the ACPs by condoning --- if not encouraging --- the use of discriminatory incentives in regional agreements among the Associates. Although the Yaounde convention fostered political cooperation among African states, the various customs unions and free-trade agreements linking these states proved largely ineffective. Furthermore, the EC's trade regime with ACP countries evolved in an ad hoc way, becoming increasingly complex while the margin of preference granted to ACP countries was being eroded by successive rounds of multilaterally negotiated tariff reductions on imports from other LDCs.

In terms of trade and investment, the results of the preferential regime granted to ACP countries were disappointing, as the share of ACP countries in EC imports from developing countries declined from 13.4 % in 1958 to 7.4 % in 1974 and further halved between 1974 and 1992. While such a decline in relative performance is not prima facie evidence that the preferential trade regime was not trade-diverting, it suggests that the special relationship failed to boost trade ties and ACP growth significantly. In terms of FDI, we show that flows of French direct investment to ACP countries have been and remain very small.

Turning to the EAs, the paper shows that, in this case as well, the benefits of market access are likely to be very small. While offering little marginal access to CEEC exports in sensitive sectors (agriculture and steel in particular), the EAs offer relatively little preference over what the GSP and tariff reductions negotiated in the Uruguay Round would offer anyway. Furthermore, the number of products in which ACP countries compete directly with the CEECs is relatively small, so that fears of trade displacement of ACP countries by the
CEECs may not be justified.

A more important channel of diversion of benefits to the CEECs is through aid and FDI redirection away from the ACPs towards the CEECs. French FDI data suggests that while FDI to the CEECs is increasing rapidly, the numbers are still very small so that "crowding out" is unlikely to result from these increases. The data show in any case no evidence of such a crowding out up to now. The same applies to bilateral aids, where the erratic pattern of aids to the ACPs shows no tendency to decline in line with increased aid to the CEECs. This might however change when the CEECs join the EU, since under current rules this would create severe strains on the EU budget.

In sum, while ACP countries are likely to loose in relative importance for the EC as the CEECs will naturally tend to occupy centre stage, enough interest will remain in pursuing the Eur0-African relationship with the ACP to make it likely that the Lomé Convention would be renewed or replaced by some other arrangement when Lomé IV expires in 2000. In any event, since the economic benefits through preferential access have been minimal, the shift in foreign policy interests should have only minimal effects on the economic performance of the ACPs.
I Introduction

The demise of the CMEA, the crumbling of the Soviet Union, and the recently signed Europe Agreements (EAs), mark a watershed in international relations and in the economic relations between OECD countries and the former socialist countries, particularly the Central and East European Countries (CEECs). This systemic change could also have profound repercussions on traditional economic ties between developed and developing countries. On the one hand, new opportunities for trade and investment have arisen with the CEECs. On the other hand, the development of trade and aid relations with the CEECs is bound to have some repercussions on the EC's traditional links with the Less Developed Countries (LDCs) embodied in what is usually referred to as the Lomé convention.

The Lomé(I) convention of 1975, and its successors --- signed at five years intervals and often referred to as Lomé II, III and IV --- define a loose relationship that now links sixty-eight African, Caribbean, and Pacific (ACP) States with the EC. These conventions are as much political statements describing the relations of EC member States with their former colonies, as they reflect the EC's (and to some extent, the ACP States') views on economic relations. Thus the Lomé Convention is much more than just a trade and aid relationship.

Much has been written about the EC-ACP relationship, both in terms of the political and economic objectives (for recent assessments of the political objectives, see Lister (1988), and for a critical assessment of the trade and aid objectives, see Grilli (1993)). There is still debate on the nature of the Lomé entente, often referred to as "l'entente discrète" in which the EC member States were more equal than the others, and on the causes of the rather disappointing economic performance of the ACP States. Aside from the economic policies pursued by the countries themselves, the EC-ACP relationship has been criticized on several grounds: too little provided by the Association, too much expected from the trade and aid relationship, and wrong economic incentives to the ACP States provided by the Association. Though this paper's objective is not to produce another scorecard on the past EC-LDC relationship, reference will be made to the incentives it created since they bear on the expected effects of future changes in the relationship.

The Conventions are declarations that formalize the economic and political relations --- often referred to as "Association" --- between the EC with its former colonies. Thus prior to Britain's joining the EC, Lomé Conventions were preceded by the Yaoundé (I and II) Conventions signed in 1963 and 1969. These Conventions followed the Treaty of Rome Association with 18 former colonies of the original EC-6. For a discussion of "Associationism" between the EC and the ACP, see Grilli (1993, ch. 1). Grilli also discusses the evolution of the geographical reach of EC Association from the Treaty of Rome to the Lomé V Convention of 1990, and the basic contents of the Association Arrangements (See Grilli. tables 1.1 and 1.6).
These unresolved issues aside, there are three important characteristics of the Association between the EC and the ACP which impinge on future EC-LDC relations. First, the Treaty of Rome Association (the predecessor of the Yaoundé and Lomé conventions) very much represented the interests of France with its former colonies. Indeed, it is widely held that France would not have signed the Treaty of Rome if it had not had its way. Although the interests of France evolved with time and had to accommodate those of the UK, they still loom large in EurAfrican relations. Any assessment of the future of EC-LDC relations should therefore give appropriate consideration to the evolving interests of France; hence our partial focus on France's interests in the ACP relationship.

Second, economic relations between the EC and the ACP consist of trade preferences and aid. Since the signature of the EAs also involves trade preferences, and since the eventual accession of the Central and Eastern European Countries (CEECs) to full EC membership (promised at the Copenhagen meeting of 1993) will have budgetary implications for the EC, it is appropriate to examine the content of the EAs and the potential budgetary implications of CEEC membership to the EC.

Third, the continuity and stability of the Lomé entente are among its most outstanding features, even though after three decades of EurAfrican cooperation, by and large, the Lomé relationship has not fulfilled the economic, social and political aspirations of the ACP peoples. This continuity suggests that, in spite of its shortcomings, the Association has at least provided a modus vivendi and some benefits to both sides, otherwise it would not have been renewed for so long. The question then, is what were these benefits, and whether the recent changes in global political and economic relations is sufficient to threaten this stability or, at least, to alter it radically.

This paper takes a broad and eclectic look at the EAs and the likely implications of the emerging economic relations between the EC and the CEECs on the EC-LDC relationship, i.e. on the future of the Association currently embodied in the successive Lomé conventions. We eschew any critical evaluation of the economic effects of foreign aid on ACP countries. For African countries, foreign aid is sizeable, often reaching 10% of GDP and accounting for half of gross domestic public investment in countries where the bulk of investment is carried out by the public sector. Aid provided by the Community is relatively small compared to bilateral aid (about one half the volume of bilateral aid from France or Germany, a ratio which has remained fairly constant since the mid-1970s), so changes there should not have much visible impact. In any event, no assessment of the economic impact of EC aid is available. In fact, Grilli (1993, pp. 122-124) deplores the lack of any assessment of Community assistance to the ACPs and notes that "Even sectoral evaluations of the development effectiveness of EC aid are lacking" (p.123).

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1 The CEECs are Albania, Bulgaria, the Czech and Slovak Republics, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia. We will refer sometimes to the "CEEC(6)" (Bulgaria, the Czech and Slovak Republics, Hungary, Poland, Romania).

The paper does not discuss either the implications of the EAs for EC trade relations with Mediterranean countries. The CEECs and Mediterranean associates of the EC compete far more with one another than they do with ACP countries; furthermore in the view of many observers, Mediterranean Associates receive in practice as much or more trade preferences than the ACPs do, so that an evaluation of the implications of the EAs for Mediterranean Associates would also be welcome.

The paper is organized as follows. Section II describes briefly the main features of the Treaty of Rome Association and Yaoundé Conventions. Section III does the same for the Lomé Conventions. The purpose is to detect what economic benefits accrued to the contracting parties. It is argued that the economic benefits for Associate countries were small. Section IV examines the political stakes in the EC-ACP relationship. It is argued that political benefits for the EC have been reduced by the disappearance of East-West tensions. It is against this background that preferences in the EAs are described in section V. We argue that contrary to popular belief, trade preferences extended under the EAs are rather minimal, quite like those extended by the EC to its former colonies. Section VI discusses trade and investment prospects for EC-CEEC relations, with particular reference to France. It is argued that even though France-CEEC trade will grow in importance in the years to come, it will still be quite marginal and, more importantly for ACP countries, there will be little direct competition between the CEECs and the ACP. And, while FDI to the CEECs could be quite significant, it would certainly not displace FDI to ACPs, since current levels of French FDI to the ACPs are very low. Section VII looks into the budgetary implications of the EAs, and especially of eventual full membership. It is argued that, under present rules, the budgetary strains of CEEC membership would be immense, in fact sufficient to keep the CEECs out of the EC for a long time unless the rules are changed.

II Aid and Trade Preferences under the Treaty of Rome and Yaoundé Conventions.

The Treaty of Rome Association formed the basis of the Lomé convention. In contrast with the short-lived French Community established under the 1958 Constitution of the Fifth Republic, the Association, like British indirect rule, aimed at accommodating African structures and customs rather than follow the principles of assimilation which had governed France's relations with its colonies. In practice, however, as notes Lister (1988, p.3), the policy of association became blurred and assimilation was never completely abandoned. Indeed, in the early days of the relationship, 'Association' meant the French theory of direct rule with the basic principle of 'equality of rights and obligations'. And, as it was mostly representing French views, the Lomé relation was in the tradition of civil law with a formal and legal basis (in sharp contrast with the more informal basis of the British Commonwealth).3

3 Another distinction with the Commonwealth was an intent, from the start, to include countries which were not necessarily former colonies. At the same time, there was less diversity than in the Commonwealth as the Lomé relationship was a North-South relationship between developed countries of the EC on one side and relatively poor LDCs on the other. Even though the EC's early eagerness to sign up new Associates in Africa is no longer an objective (most having been signed up by the time of
From an economic standpoint, the trade and aid provisions were the two important relationships that have governed the EurAfrican association since the Treaty of Rome. On the trade side, the benefits of the colonial relationship were spread to the Six so that preferential tariffs and trading arrangements were equally enjoyed by the Six. In effect the Treaty of Rome Association, and its successors (the Yaoundé and Lomé Conventions) insured that all EC partners would be treated equally among the Associates. In some sense, it could be argued that this was the price France had to pay in order to obtain preferences for her (then) colonies, the objective being to minimize adjustment costs occurring as France moved to the Common External Tariff (CET)\(^4\), and could no longer give trade preferences to products imported from her colonies.

On the other hand, the Associates (to become "Partners" at the Lomé convention\(^5\)) were allowed to use tariffs to raise fiscal revenues, while the Associates' were given free entry of their products into the EC (with the exception of products falling under the Common Agricultural Policy).\(^6\) Thus the Associates were, in practice, allowed to maintain tariffs on imports from EC countries if these were necessary for fiscal revenues, development, or industrialization, a condition that was also maintained under the Yaoundé and Lomé Conventions.\(^7\)

In retrospect, it is widely accepted that this asymmetrical treatment was a lost opportunity for the ACPs as they were not encouraged to shy away from distortionary trade policies. Indeed, if the accumulated evidence on the damaging effects of restrictive trade regimes had been known at the time, one can hope that reciprocity in trade relations (as is for instance the case of the EAs) would have been the rule. Reciprocity in trade concessions -- as was the case for the second enlargement of the EC -- would have gone a long way towards improving the performance of the ACPs, especially if they had extended their tariff reductions on EC imports to non-EC trading partners on an MFN basis.

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\(^4\) In 1957, the French tariff on (mostly tropical) products competing with those produced in her colonies stood at about 8% while the EEC tariff was about 4%. See Lawrence (1972, p. 366)

\(^5\) The Associates were referred to as the AAMS (Association of 18 African and Malagasy States) under the Yaoundé Conventions and the ACP States (66 African Caribbean and Pacific) under the Lomé Conventions. In this paper we will use the term 'Associates' when referring to the developing country partners of the Association.

\(^6\) Some of the Associates' most important exports were not given preferences (e.g. copper from Zaire which accounted for 15-20% of Associates' exports did not receive preferences --- nor did exports of timber and other minerals).

\(^7\) In principle, under the Treaty of Rome and Yaoundé I and II Conventions, the trade arrangements between each AAMS and the EC entailed reciprocal trade obligations, so that in practice, the Yaoundé Convention de facto multilateralized the existing trade regime between the EC and the former colonies. Reciprocity in trade relations which had already been abandoned with the adoption of the Generalized System of Preferences (GSP) by the Community in 1971, was abandoned under the Lomé Conventions. In practice, the notion of free trade areas between EC member states and ACPs was never applied.
As noted during GATT discussions on the Association, this was not the creation of a free trade area (FTA). The Treaty of Rome Association was an expansion of existing discriminatory trade provisions, as the Associates would not be subject to the EC's Common External Tariff (CET), thereby displacing other countries: the Association therefore infringed on Article XXIV of the GATT.8 9

But non-discrimination and reciprocity in trade relations were not the order of the day. The economic motives for the Association were indeed quite different, as France wished to continue the benefits of the franc zone and, according to Wall (1976), provide compensation for expected losses to Associates from the gradual phasing out (required by the Treaty of Rome) of managed market schemes of guaranteed prices for imports into France from her Associates.10 Thus while trade with Africa was only a small portion of French trade, 85% of West African imports came from France. According to Lister (1988, p.16), the French charged a premium on exports to West Africa (the actual premium varied across products; for instance wheat was sold at 80% above the world market price) and, in return paid up to 15% above world market price for her imports of agricultural products from West Africa.

By shielding African producers from competition, the economic ties between France and West Africa permitted the survival of largely inefficient producers. In addition, up to 70% of public capital investment in West Africa came from France. Clearly the application of the EC's Common external tariff to the colonies' exports to France would have seriously reduced the competitiveness of African producers and required adjustment towards a more efficient resource allocation.

The Association also provided financial aid for the associates through the European Development Fund (EDF) which was to be administered by the Commission with important decisions about finance allocation being referred to the Fund council where representation was according to votes allocated to the member countries.

8 In Vinerian terminology, the FTA was trade diverting rather than trade creating. As pointed out by Ouattara (1973), competition between the EC and the Associates was limited to the simple processing of a few agricultural products and simple manufactures so that the products produced by the EC and the Associates were complementary rather than competitive.
9 The perceived importance of this discrimination can be judged by the complaints of the Latin American countries at UNCTAD. Negotiations through UNCTAD resulted in a lowering of the EC's CET on tropical products.
10 The idea of association was first introduced by France in May 1956 and got support from the Belgians and Italians who also had colonies, but met with more resistance from the Dutch and the Germans who no longer had colonies in Africa. According to most observers, the Treaty of Rome Association was imposed on the dependencies "in a fashion which could not have been more colonial in spirit" (V. and G. Curzon (1971), cited in Lister (1988)). According to several accounts (see e.g. Lister, ch. 1) France made Association the sine qua non for joining the EEC. In the end, Association was the last outstanding issue of the negotiations of the EEC, and it is considered that France gained a major victory, even though a few concessions had to be made, such as allowing Germans to import bananas from Latin America and allowing all EEC states equal rights of establishment of businesses in the Associated territories.
France had a third of the council votes, which meant a contribution of one third of the total EDF funds. It is interesting to note that during 1962-1968, a period of declining bilateral aid (see Lister table 1.3), French aid dropped more than bilateral aid from other EC members (from $288 million in 1962 to $269 million in 1968). During one single year (1966) French bilateral aid dropped by as much as $40 million. Thus, the Association served to some extent as a substitute for bilateral aid. Under the Treaty of Rome, funds to the EDF amounted to $581 million, or $116 million on an annual basis. Under the successive agreements of Yaoundé I and II, EDF funds were increased to $800 and $1,000 respectively, so that by the time of the Lomé Conventions, France's annual multilateral contribution to the EDF was about one quarter of its bilateral aid.11

Following its expiration, the Treaty of Rome Association was followed by the Yaoundé I and II Conventions which contained few changes in economic policies. The initiative was again on the EC side, even though the Associates were now independent states. Quite importantly, whereas the Treaty of Rome obliged the Associates to grant each other the same preferential trade terms as they granted the metropolitan power, under the Yaoundé Convention, the Associates were not required to grant preferential treatment to each other: thus instead of creating one FTA, the Convention created 18 different FTAs, leading to what one would today call a system of "hub-and-spoke" bilateralism (as in the case of the EAs discussed in section III below). Even though trade among the Associates was minimal, this was unfortunate, as it maintained the principle of discrimination among trading partners.

What was new under Yaoundé was the objective to promote cooperation among the Associates that had now gained the status of independence. This led to a plethora of regional trading agreements in Africa, and to the creation of overelaborate institutions in terms of their powers (according to a recent count, in West Africa alone, there are currently over thirty inter-governmental organizations (Foroutan (1993, p. 234)).

It could be argued that Yaoundé was successful in fostering cooperation among African states, but on the economic front, the various customs unions (CUs) and FTAs amounted to very little. As argued convincingly by Foroutan (1993) in her recent survey of regional integration efforts in Africa, any meaningful economic integration was prevented by the characteristics of the economies, the pursuit of import substitution policies, and the very uneven distribution of costs and benefits among the partner countries. The very skewed distribution of benefits led either to very limited free intra-group trade (e.g. in the Union des Etats d'Afrique Centrale (UDEAC) only resource-based unprocessed commodities had zero tariffs) or to highly distortionary preferential customs duties to meet the 'protection needs' of the least advantaged partners (e.g. the Taxe de coopération régionale in the Communauté des Etats d'Afrique de l'Ouest (CEAO)).12

11 These figures include the funds (less than 10% of the total) allocated to the European Investment Bank created under Yaoundé I.
12 Under these schemes, import duties were replaced by a single tax tailored for each enterprise, product, country of origin and destination. For details on how the compensation schemes were designed, and on their effects, see Foroutan (1993, section 3.2.4). Also see the discussion by Bliss of Foroutan's paper.
In sum, the economic benefits of cooperation among the Associates were, at best minimal. While the unfavourable circumstances described above could be sufficient to produce small benefits from regional integration, it is also possible that the acceptance of non-reciprocity and discriminatory treatment among trading partners embodied in the economic relations between the African states and the EC also contributed to a carrying over of these principles in the negotiations over regional trading initiatives among African states.

Did the economic measures of the Treaty of Rome and Yaoundé Conventions have a noticeable economic impact? It is generally agreed that they had a very small impact. Between 1959 and 1964 EC imports from the Associates stagnated while imports from other LDCs grew and the Associates' share in LDC exports to the EC fell by 2 percentage points to 12% from the average level they had between 1953 and 1959. On the other hand, the EC share in Associates' imports rose from 66% to 68% during the same period as they benefitted from the reduction of discriminatory tariffs.\(^\text{13}\) The pattern continued under Yaoundé I and II, as the growth of Associates' exports was less than that of any other developing country group.

### III Continuity in the Trade and Aid Relations Under the Lomé Conventions.

By the time the first Lomé Convention came into effect, the share of the Associates of LDC exports to the EC had fallen from 13.4% in 1958 to 7.4% in 1974 (and further to around 3% by 1992).\(^\text{14}\) While contrary to what is often ascertained, this fall in export share is not a sure indicator that the trade preferences granted by the EC were not trade diverting; it is clear that the Associates exports were not doing well. Given that the preferences accorded to the Associates were dwindling in time as the tariffs of the EC on products from other LDCs competing with the Associates were falling (the unweighted average on tropical imports fell from 15% at the time of the Treaty of Rome to 2% at the time of Yaoundé II), much of the disappointing performance was directly due to the difficult circumstances prevailing in the African states and to their own economic policies.

Did noticeable changes occur under the Lomé Conventions? The extension of the Association to former British dependencies was feared by the original Associates as it would result in a dilution of their preferences, and aid would be spread more thinly. It turned out that in spite of a large (269%) nominal increase in aid funds, compared with Yaoundé II, the real value of aid declined by 40% under Lomé I. It should be no surprise that with this experience in mind, today the ACP Associates fear that the EAs will result in a reduction of aid funds!

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\(^{13}\) For more details on this period, see Lawrence (1972).

\(^{14}\) A similar decline is obtained when import shares for the EC(12) are calculated for Associated and non-associated countries: between 1958 and 1988, Non-Associated LDCs maintained a market share of 18% while Associated LDCs saw their share fall from 102% to 4.4% (Grilli, figure 4.1).
Even though there was a decline in per capita aid in real terms, Lomé brought a substitution of aid for trade. This occurred as the EC could no longer offer preferential access to their markets. Also the trade performance of the Associates had been disappointing until then, and there was pressure for some compensation for the erosion of preferences. Multilateral tariff reductions had reduced preference margins, and, in principle, the Generalized System of Preferences (GSP) applied by the Community since 1971, was extending preferential access to all LDCs, thereby diluting the margin of preferences enjoyed by the Associates.

The introduction of the stabilization of export earnings system (STABEX) under Lomé which was designed to cushion the adjustment required when export earnings fall as a result of a fall in price. While there is in principle an economic rationale for producer price stabilization, in practice, at the country level, stabilization has not worked well as funds were used for other purposes in periods of high world prices, resulting in shortages of funds in periods of low prices. The Associates were however unable to obtain free entry for products covered by the CAP even though they obtained some preferential treatment over third country goods. Finally, even though the EC never invoked it, there was a safeguard clause (article 10).

With the joining of Commonwealth countries, sugar became an important issue as the UK had guaranteed a market and an attractive price to the sugar exporters of the Commonwealth since 1952 with the Commonwealth Sugar Agreement (CSA). At the insistence of the UK, like the CSA, the Sugar protocol of the Lomé Convention offered the same level of benefits as the CSA which it replaced. For Mauritius where 80% of export earnings came from sugar and for another dozen Commonwealth sugar producers, the benefits of this protocol turned out to be substantial as the price of sugar on world markets plummeted (from 60 cents per pound to less than 10 cents two years later) and the Associates were guaranteed both access to the EC market and the same price as EC sugar beet growers.

If sugar preferences were substantial for Mauritius and other ACPs whose main export earnings were derived from sugar, the same cannot be said of the other non-reciprocal trade preferences granted by the EC under Lomé. First, the margin of preference enjoyed by the ACPs fell drastically as EC MFN tariffs were cut under trade liberalization completed under the auspices of the GATT for products such as coffee, cocoa, vegetable oils and coffee. In addition, no preferences applied to important exports such as crude oil, copper, phosphates, cotton whose relative importance in ACP exports increased after 1973 so that an average of 50 to 60 percent of ACP exports were never given any preferences because they were non-dutiable irrespective of source. Another 5 to 10 percent of ACP exports to the EC fell under the special import regulations under the CAP. In the end, about 35 to 45 percent of ACP exports received preferences. These were essentially tropical beverages, that are quite price inelastic and whose demand in the EC became quite saturated.

15 An example is the successful lobbying by the Associates for beef and veal which resulted in an increase in their quotas in the EC. Their share of EC imports of beef and veal rose from 2% in 1974 to 13% in 1979. However, "preferential access" on CAP products has been, in general very small, and in any case, inversely proportional to the protection received by EC farmers from the CAP. For details, see Grilli (chap.1, note 31).
Moreover, for exports of manufactures, even though the ACP escaped regulations under the MFA which would prima facie suggest a strong preference margin for the Associates, upon closer inspection, the system restrictive rules of origin (local content requirements of 50% to 60%), permanent surveillance, facultative ceilings (known as the 'ACP line'), and the way in which the regulations were applied\textsuperscript{16}, clearly indicate that the EC discouraged non-EC investments in the ACPs. While it cannot be said that such investments would have been sufficient for a take-off of the T&C sector in the ACPs, nor that the investments would have been forthcoming because of the highly regulated and distortionary system of incentives in the ACPs that discouraged investments in sectors of comparative advantage, it is clear that the EC granted little, if any, marginal preference, to the exports of ACP manufactures (according to some estimates, up to 90% of manufactures of LDCs entered duty-free under MFN or GSP terms).

This description of the preferences under the Lomé Conventions shows that the evolution of the EC's trade regime, though first shaped by the legacy of colonial inheritance, became increasingly ad hoc, reacting to emerging circumstances, the EAs to be discussed below, being the last case in point. As a result, the EC constituted was has been referred to as a "pyramid of privilege" that acquired more and more layers, and that became increasingly complex with countries changing position within the ladder of trade privileges. In the end, the trade policies followed aimed at defending European economic interests and the post-colonial economic order that allowed Europe to develop and prosper after the end of WWII.

The poor performance of the ACP countries registered under the Yaoundé Conventions continued under the Lomé Conventions. Thus ACP exports to the EC which stood at 3.4% of total imports in 1975 had declined 3.2% by 1985. This decline continued, and by 1992, the ACP share of EU imports was down to 1.5%. Between 1985 and 1992, average growth of EC imports was 12% while ACP imports to the EU only grew at 7% per annum. Thus, like its predecessor, the Lomé Convention did not prevent the deterioration in market share of the ACPs.

Aside from economic aid, whose benefits have not been evaluated, the above discussion that the Lomé Convention brought little economic benefits to the Associates. Indeed, we have even argued that the allowance of non-reciprocity in trade relations between the EC and the ACPs was in the end detrimental for the ACPs. Furthermore, trade preferences were, at best, minimal, and of short duration. Nonetheless, the Conventions also provided a forum for cooperation among African States. Even though the resulting regional integration among ACPs has been disappointing so far, at least the Conventions laid the ground for cooperation among the ACPs.

\textsuperscript{16} An example cited by Grilli (p.167) is the lists of exceptions imposed by the EC for special cases where a change in tariff heading did not constitute sufficient evidence of substantial transformation. Such an application of preferential access indicates that the Community was concerned with protecting its T&C industry from import penetration on the part of ACPs. And while the EC never resorted to the safeguard clause in the Lomé Convention, national safeguard clauses were undertaken at the national level (e.g. on knitwear by the U.K. on Mauritius in the late 1970's.)
IV The Political stakes in the EC-LDC Relation

It goes without saying that there are great economic interests for the EC in having strong economic links with the CEECs. Much as one of the greatest benefits of the EC was the dilution of political tensions in Europe and its contribution towards making a war between France and Germany unthinkable, strong economic links of the EC with the CEECs in the future will provide a buffer against any expansionist threat from Russia. But also, just as the reconstruction of Europe after WWII was in the economic interests of the United States, so is the economic reconstruction of the CEECs in the interest of the EC. There is an added benefit for the EC from strong growth in the CEECs: less migratory pressure at the EC's doorstep. Therefore it is beyond doubt that the political benefits from good economic performance in the CEECs is of vital political interest to the EC. Last but not least, a united Europe under the leadership of the EC would be by far the largest economic zone in the world.

What then have been the political interests of the EC in its associations with its former colonies? In the successive Lomé Conventions, few changes were introduced, and it can be said that the objective continued to be to consolidate the EurAfrican relationship under the leadership of the EC. Even though the Lomé Convention was supposed to establish a partnership based on complete equality, the Associates were the dependent partners. As stated by Lister(p. 186) "Just as the language in the Alliance for Progress did not eliminate the dominance of the United States in the western hemisphere, the declared partnership of the Lomé Convention did not alter the relations between Europe and Africa." Thus, as recognized by Development Commissioner Cheysson himself, Lomé was well about traditional politics and the creating of a sphere of influence for the EC. In geopolitical terms, the Convention was part of a system of continental bilateralism.

Even though Lomé was more concerned about post-colonial relations, East-West issues were not totally unescapable and a constant, though unstated theme, was to attract the ACPs away from socialism. This was reflected in the gradual weakening of the use of the Hallstein doctrine (not to recognize countries that recognized East Germany) to attract Mozambique and Angola which eventually joined by the time of Lomé III. With the cold war over and the crumbling of socialism, the EC's interest in the ACP will no longer include the desire to attract countries away from socialism. However, it does seem that this concern was not the centrepiece of the political interests of the EC in its relations with LDCs.

For France, the importance of Lomé and the relations with its former colonies remained very important and, until 1985 the Development Commissioner post at the EC was held by the French. French interests included an "Africa First" policy as a reflection of wanting to keep an economic and cultural sphere of influence in French-speaking countries. This interest is still there and has not been affected by recent political and economic events in the CEECs. Second, an interest in African minerals, as the French military is still dependent on uranium cobalt and other minerals. Finally came the French foreign policy interest of being a successful broker between the superpowers. This role was first weakened in the early seventies when the US recognized China, and now for a second time, as the cold war is over.

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How important were French interests in shaping the Community's policies and EurAfrican relationship? Paramount at first, and certainly diluted somewhat since the Lomé Conventions, and more recently with the EAs. We would argue, however that the recent interest in the CEECs are certainly not enough to weaken considerably France's interest in Africa. And, in spite of the sharing of influence by France with other Community members in the shaping of the EC-LDC relationship, the EurAfrican relationship will continue, even though it would be foolish to deny that the recent changes in East-West relations and the changes in the CEECs will not weaken it.

There are also political benefits in the EurAfrican relationship on the side of the Associates. The leaders of the ACP countries often needed the Community to enable them to achieve their political goals at home including the preservation and consolidation of their often personal regimes. The joint management (cogestion) of Community aid and the principle of parity or equality, a hallmark of the Community's aid model according to EC officials, certainly contributed to create a bond between the interest of the EC and the Associates. While the Community decided the level of aid unilaterally, by and large, the destination of aid was decided by the political elites that held the power in the Associated countries. According to Grilli "Aid was in many ways the price that the EC had to pay to keep EurAfrica going" (p.127). And while it is not clear that EC aid created clientelism, it is probable that it contributed to perpetuating clientelism.

V The Europe Agreements: Marginal Trade Preferences

Starting with Poland in 1992, the EC Commission signed bilaterally what have become known as the Europe Agreements (EAs). These agreements include now Bulgaria, the Czech and Slovak republics (CSR), Poland and Romania.18 By extending trade preferences, the EAs could potentially erode the margin of preferences extended by the EC to the ACP or discriminate indirectly against them by giving preferences to the CEECs. To address the effects of these preferences, two questions must be answered. First, what is the extent of these preferences, and where the CEECs figure in the EC's pyramid of privileges. And second, is there any competition in EC markets between the CEECs and the ACPs. In this section we answer the first question, leaving it to section VI to look into the pattern of trade and FDI between the EC and the two groups of countries.

Contrary to what one might believe in the light of the EAs, the principal change in trade relations between the EC (and EFTA since EFTA's trade policies vis-à-vis the CEECs have followed the ECs' policies) have been unilateral decisions on both sides rather than the agreements themselves. The major change in EC trade policy was to unilaterally suspend quotas (with important exceptions discussed below) on imports from the CEECs in 1989, that is prior to the EAs. On the CEEC side, the major move was to adopt more transparent trade policies, with relatively low and uniform tariff barriers. In fact, the marginal character of trade preferences...
preferences granted in the EAs prompted some observers (e.g. Messerlin (1992, p.130)) to interpret the EAs as having mostly aimed at unifying EC trade policy of member states vis-a-vis the CEECs.

The principal features of the EAs have been described elsewhere (see e.g. Messerlin (1992, 1993)). They are described here because of the special provisions governing trade relations in the sectors where the CEECs have the greatest potential to expand their exports to the EC.19

On the political front, the agreements avoid any timetables or eligibility criteria for membership, focusing instead on the dialogue to take place between the EA countries as a group and the EU to facilitate the emerging political order in the EA countries and induce cooperation among them. Nonetheless, in principle at least, since the Copenhagen meeting of 1993, the EC has formally accepted eventual membership of the CEECs, so that budgetary implications need to be taken into account. These are examined in section VII.

On the economic front, two areas should be distinguished: agricultural and non-agricultural goods. In agriculture, concessions have been minimal and further undermined by subsequent measures like banning meat imports from the CEECs on sanitary grounds. With very few exceptions, agricultural trade is essentially left out of the EAs. Indeed, it is stated that the EAs are not to restrict in any way the agricultural policies of the EC or the CEECs.20

For non-agricultural trade, zero-tariff status should be reached following a transition period not expected to exceed ten years. Indeed, as a result of the new unilateral concessions announced in early 1993 by the EC Commissioner, by the end of 1994, EC members will have removed tariffs on all non-sensitive industrial goods, including chemicals. For "sensitive" industrial goods (textiles and apparel, iron and steel), the removal of tariffs will be accelerated with a complete elimination of tariffs to be achieved by 1996 instead of 1997. For textiles, remaining QRs are to be eliminated by the end of 1997.

Looked at in this way, the EAs seem to provide the CEECs with preferential access for trade in non-agricultural goods. Yet, as pointed out by Messerlin, the EAs often just replicate the status quo. For example, tariff reductions on industrial goods are granted from the MFN levels.21 Since the CEECs are beneficiaries of the EC GSP (Generalized System of Preferences) scheme, the preferences will only replicate the GSP status -- albeit on a permanent basis -- and little liberalization if any will occur during the transition.22

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19 The following description draws on Messerlin (1992,1993). Even though there are differences in specifics across the EAs, these result in essentially the same terms for each CEEC.

20 It is not quite correct to state that agriculture is left out (see e.g. Messerlin, table 6.1, which gives measures included in the EC-Hungary agreement. In most cases, the measures amount to an increase in the quota ceilings of 35% during 1992-1996). However since quotas were extremely low in the first place, these do not amount to much liberalization. The same applies to the EC-Poland agreement. In the case of Polish beef exports, for instance, quotas are allowed to go up from 4000 tons a year to 6000 tons a year over a five-year period. In fact, French pressure within the EC was not foreign to this more than cautious approach to trade liberalization in agricultural products.

21 At the three digit ISIC level, the average MFN EC CET is 7.8% with only three product categories registering tariff rates above 10% (food products [16.8%], apparel [12.3%], footwear [10.9%]).

22 The EC GSP scheme grants for most industrial goods, but under strict rules of quantities and origin. Evidence from Messerlin (table 6.4) suggests that reduced MFN tariffs under the EA agreements will
the recently completed Uruguay round has further reduced tariff barriers, a more accurate
description of the EAs is that they provide at best rather marginal preferential tariff access for
trade in non-agricultural goods for the CEECs during the transition period.

In textile and apparel (T&A), measures regarding QRs have been taken within the
framework of the traditional Multifiber Agreement (MFA) which is based on detailed QRs at
the product level negotiated with individual exporting countries. Tight quotas had resulted in
the CEECs accounting for less than 1% of EC imports. Since 1990, these quotas have been
raised unilaterally by the EC. As a result, CEEC quotas increased from between 3% and 5%
of global quotas in 1989 to 4% to 7% in 1992, with the discriminatory stance against the
CEECS being eliminated before the EAs were signed. However, so long as the quota system
remains, tariff reductions will have little effect beyond rent-shifting. With quota increases in
the 2%-6% annual growth range, (and the introduction of quotas on new product categories
such as flax products), one would not expect much increase in CEECs exports, were it not for
the special "outward-processing-traffic (OPT)" regulations introduced by the EC on two-
thirds of the MFA product categories.\textsuperscript{23} Not only do these quotas account for 40% of the
value of quotas, but during 1993-97, they are projected to grow at 1.5 times the rates for
regular quotas. Besides the introduction of OPTs, the most liberalizing factor in T&A trade
so far probably comes from the abolishment of article 115 in January 1993 which no longer
allows quotas to be established at the country level.

With the recent conclusion of the Uruguay round calling for an abolition of all quotas
in T&A trade within the next ten years, the issue is whether the CEECs will enjoy a margin of
preference during that transition period. Our understanding is that the liberalization which is to
take place gradually will mostly occur towards the end as the importing countries will have the
choice on which products they will liberalize during each one of the four phases of
liberalization during the transition. It is therefore expected that the importing countries will
choose to liberalize first the quota categories that are not currently binding. Since quotas on
CEECS are to be abolished by 1999, the CEECs should enjoy a transitory period of
preferences. However, with the abolition of the MFA agreed upon in the Uruguay round, this
preferential margin of the CEECS should in principle only be temporary and not cause undue
concern to the ACPs in the long run.

At this stage, in T&A, the question is the extent to which recent changes have made
existing QRs less binding. The most recent available data for 1992 (see Messerlin (1993, table
5) indicates that MFA quotas have decreased, that the CEECs have adjusted rapidly to their
increased quotas and that they have relatively high quota utilization rates (73%) compared to
other countries exporting to the EC under the MFA.\textsuperscript{24} It is difficult, however, to conclude
from these data whether or not quotas are still binding.\textsuperscript{25}

\textsuperscript{23} OPT quotas which are granted to EC T&A firms, allow CEEC exporters to enter duty-free if they
use inputs previously imported from the EC.

\textsuperscript{24} In 1989, the CEECs utilization rate was 49%, and their global quota less than half the quota for
1992. The increase in quota utilization rates probably reflected the effects of several factors including
improved incentives to export, and lower costs to utilize the quotas as their size increases.

\textsuperscript{25} On the basis of an examination of quota utilization rates across EC countries, Faini et al. (1994)
argue that the quotas are mostly binding for the low-cost latecomer exporters (e.g Bangladesh, China).
However little marginal access the EAs provide over MFN status (which the CEECs will enjoy as GATT members) is further reduced once is recognized that substantial contingent protection is embodied in the EAs. First, at a general level, there are six safeguard clauses for particular products (e.g. agriculture), and two general clauses including one (article 30) which allows the importing country to use QRs and minimum prices under the usual condition of 'increased quantities and conditions causing serious injury'. This weak condition for triggering safeguard measures is further weakened by the introduction of the alternative condition '... or serious disturbances in any sector of the economy or difficulties which could bring about serious deterioration in the economic situation of a region'. On the CEEC side, article 31 introduces a safeguard measure on exports aimed at limiting exports if necessary -- a measure reminiscent of former CMEA (Council of Mutual Economic Assistance) rules where protection covered exports as well as imports. It is therefore difficult to say that the EAs significantly reduce the risk of reversibility of EC trade policy.

Second, for those so-called sensitive industrial products in which the CEECs are likely to enjoy the greatest margin of comparative advantage in EC markets -- textiles and apparel (T&A) and iron and steel -- the treaties contain enough special provisions to control any import surges. These provisions reflect the fact that the EC -- along with most other OECD countries -- has a long history of contingent protection in the form of non-tariff barriers (NTBs) (eg. anti-dumping (AD) measures, voluntary export restraints (VERs) and the like) in these sectors. Thus, if adjustment pressures turn out to be too high in these sectors, the door is open for NTB protection under the EAs.

That contingent protection is a real threat is illustrated by the measures taken by the EC in iron and steel trade. The EAs call in principle for the elimination of all existing QRs in iron and steel. But the EC steel industry suffers from chronic excess capacity and CEEC quotas have been over-utilized (in 1992 CEECs accounted for 4% of EC steel consumption). As a result of the surge in imports from the CEECs in 1992, AD duties ranging between 10% and 22% were imposed with a priori and a posteriori import surveillance extended for imports from "all countries except EFTA", meaning basically the CEECs and FSRs. Quotas were introduced in 1993 on steel exports from Bulgaria, Romania and the FSRs, with a new list of basic prices published in April 1993. And for the CSR, expansion of 1992 quota levels are to be achieved tariff-quotas for a wide array of steel products, with tariffs of 25-30% on imports beyond the agreed-upon quota levels. It is thus not in iron and steel that one should expect import surges for the next few years.

AD action, while concentrated in the iron and steel sector, has also been applied to chemical imports (synthetic fibers). In all, three AD cases were initiated since 1992 against the CEECs and four more against FSR countries (Messerlin (1993)). Thus, if the EAs are to eventually provide access to the CEECs, it is expected that the operation of contingent protection will severely limit CEEC exports in these sectors for a long transition period. The use of contingent protection is pointed out here only to warn the ACPs that they would face a similar fate in the case of a successful drive in sectors where employment levies are high and concentrated as there would undoubtedly be a demand for protection.
As in the case of EC-ACP trade, a final potential obstacle to increased EU-CEEC trade is rules of origin. These could hamper the flow of foreign direct investment (FDI) which, in most cases, is generally likely to be export-oriented, both because of the small size of domestic markets and because of the abundant supply of low-cost labour. For instance, imported inputs entering CEEC manufactures can benefit from EAs provisions only if no more than 40-50\% of the value of production originates from non-EC sources. As to assembly plants in the CEECs, they qualify for EA measures only if they are based on bilateral trade between the EC and the CEECs. Besides being costly to implement, diverting scarce managerial resources and opening the door to rent-seeking and corruption activities, rules of origin could turn out to be a deterrent to FDI in CEECs.

In sum, while the combination of the unilateral provisions of the EC and CEECs trade policies and the EAs provide the potential for an augmentation of mutually beneficial trade, even though there are enough exceptions to significantly "control" the increase in trade. In addition, there is also the potential for trade diversion, at least for certain products. At the same time, the "hub-and-spoke" nature of the EAs tends not only to marginalize the CEECs as they have to deal individually with the EC, but also removes any pressure for bilateral reductions in any existing intra-CEEC trade barriers.

The uncertainty about the implementation of free trade areas (FTAs) among the CEECs could significantly diminish the gains from the recent opening of their economies to foreign trade. Indeed, as noted by Messerlin (1993), it is significant that during the negotiations of the EAs the CEECs raised their protection (Poland raised her average tariff from 10\% to 18\% in August 1992, Romania cancelled in 1993 previously considered tariff reductions and Hungary made its global quota system more product specific), suggesting that the CEECs were trying to improve the "asymmetry" that they anticipated would be incorporated in the EAs. Of course, such moves introduce country-discriminatory protection that will be hard to dismantle later on once the adjustment has already been made to the EC.

So where are the benefits of the EAs? It has to be remembered that the EAs have provisions to reach the goal of the other freedoms -- free movement of services, capital and people -- on which the EU is based. It is here that the preferential access gains are, by far the largest, even if the EC is unlikely to improve access to its labour markets. The EAs will result in progressive liberalization of trade in services and will provide for bilateral national treatment of firms, which means that CEEC and EU firms will face the same government procurement policies. This will be a substantial advantage over non european firms Which will not have this

26 It is difficult to estimate the magnitude of these cost creating regulations (border costs, bogus norms and standards, etc.). For the EC, Pelkmans and Winters (1988) estimated that the completion of the internal market would yield a static welfare gain of 2-3\% of GDP.
27 For example, the Hungarian MFN tariff for autos is currently set at 35\%. This means that EC producers would have a 35\% edge which could turn out to be trade diverting if, say Japan is the low cost supplier by a sufficiently wide margin.
28 One can recall Portugal's fears of "invasion" of spanish products when as part of their accession to the EC in 1987, the two countries had to achieve free trade status overnight.
29 In the past, regional arrangements among developing countries have had very poor implementation records (see de Melo, Panagariya and Rodrik (1993). While it is possible that a similar outcome will unravel for CEEC-CEEC trading arrangements, the desire to join the EC should give the necessary incentive to effectively liberalize among themselves.
"access" to the EC markets. Not least, the EAs require that capital transfers concerning direct investment and repatriated profits be allowed, which will significantly reduce the uncertainty for outward FDI by EC firms.

Finally, the CEECs are to adopt economic laws that approximate EC laws. So the CEECs should have similar competition rules, similar standards on the protection of intellectual, commercial and industrial property, and similar limits on state aid to industries. While these laws may not always be those that would have been chosen by the CEECs, the EAs are likely to accelerate some of the necessary lawmaking in the CEECs, and the application of similar rules to those already adopted in the EC will certainly ease subsequent steps at integration. At the same time, this will be an area where the CEECs will gain a competitive edge over third countries, as they will have laws that will be more friendly for the establishment of foreign firms in the CEECs.

It should be clear from the above discussion that the ACPs should not fear that the EAs give directly much increased market access for trade in goods for the CEECs. In many ways, the preferential treatment the CEECs will obtain in trade in goods is as limited as the preferential access enjoyed by the ACPs since the Lomé Conventions. This is so because the so-called sensitive sectors -- precisely those in which the CEECs have the greatest potential comparative advantage -- are essentially left out. So, even if one is to expect growth in EC-CEEC trade for manufactures, the safeguard provisions are there to put the cap on any spectacular growth rates. It would therefore appear that it is in the area of the movement of capital and services that changes will be the more important.

VI France-CEEC Trade, investment and foreign aid prospects and their impact on EC-ACP trade

How important is CEEC trade for the EC and how much is it expected to grow in the next twenty years or so? Even though the CEECs and the ACPs do not compete directly in most EC markets as the CEECs do not sell tropical products in the EC. However, one can conceive that there is a range of light manufactures (e.g. textiles and clothing, footwear and leather products etc.) in which the CEECs would compete with the ACPs. So it is useful to have some idea of likely trade patterns. The same can be said about FDI and foreign aid.

In 1989, the CEECs accounted for 3% of the EC imports (7.4% of extra EC imports once intra-EC trade is netted out). In this respect France is representative of the EC as the corresponding shares were 2.3% (5.7%). These shares have not varied much over the period 189-1992. So it is safe to say that the CEECs currently represent a small share of extra-EC trade and of French extra-EC trade.

30 Most of the figures in this section are from Cadot and de Melo (1993)
Looking into the future, available estimates are mostly based on applications of the gravity trade model where trade shares are mostly explained income per capita differentials and distance between partners. This model of trade patterns would not be the preferred model to explain EC-LDC trade as differences in factor endowments are bound to play a dominant role, but it is adequate for a prediction of trade patterns in manufactures which is most important for trade between the CEECs and the EC. Results from Baldwin (1994) suggest that if the CEECs maintained their 1989 income levels but became as integrated with each other and with the EC as the EC was in 1989, export levels would double. A further boost is predicted if the CCECs catch up and have an annual income growth of 5%. Then the annual growth in exports would be 14% per year which would give the CEECs and the FSR-4 (Russia, Moldova, Ukraine and Belarus) would have an import share of around 10% (about 7% for France) by the year 2010. Thus even the trade flows show rapid growth the trade shares will remain small.

Small aggregate trade shares does not means that there will not be pressure for protection if the growth in imports is concentrated in a few sectors. Table 1 gives the extra-EC market shares of the CEECs that have signed the EAs and the economies of the Former Soviet Union lumped into one group. The calculations are carried out for 99 products (corresponding to the SH2 level) with results for 1992 reported only for the sectors where the shares exceed 5%. With this cut-off point less than 2.4% of the product categories qualify for inclusion. Poland and the FSU are the only "significant" trade partners for France, with the FSU a provider of raw materials (essentially non competing imports) and Poland more sensitive because of the imports of shipyard products and meat. Likewise, the CSR has significant export shares in iron & steel and armaments and both Poland and the CSR have already faced contingent protection. None of these sectors appear to be in competition with the ACPs, so there appears to be no direct evidence that the CEECs will significantly displace ACP products if present trends continue.

<table>
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<td>Extra-EC market shares of French imports (1992)</td>
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Perhaps the most important area of change will be in the area of foreign direct investment (FDI). It turned out that the accession of the Iberian countries to the EC in 1986 was followed by a tenfold increase in French FDI in these countries. Of course, to some extent the geographical and cultural proximities of France with Spain and Portugal lent itself to such an outcome. However, as argued in Cadot and de Melo (1994), the Iberians had duty free access to the EC market at least since 1976. So an explanation must be found elsewhere, and it is undoubtedly the prospects of a more stable economic and less uncertainty about the political climate as well as the adoption of investment codes that encouraged FDI which had much to do with the increase in observed FDI (and also with the significant catching up of these countries since 1986).
The question is whether one can expect such a change to occur with the CCECs after the signing of the EAs and the implications, if any for French (and other EC countries) FDI in the ACP. Here we take a look at the pattern of French FDI in the CEECs and in the ACP in 1992. 31

The data on French FDI is shown in table 2. Several patterns are interesting. First, the CEECs have already received a larger share of FDI than the ACPs, almost three times as much net FDI flowed to the CEECs than to the ACPs in 1992. Second, net FDI in the ACPs was very small, about half a million dollars confirming that the relationship remains one of official rather than private flows. Third, the totals are dominated by the disinvestment in Nigeria a country under political turmoil. Likewise very little net FDI occurred in Ivory Coast, probably reflecting the poor economic performance in recent years and uncertainty about future macroeconomic policies.

<table>
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<th>French FDI in ACPs</th>
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| Even though figures for one year are not sufficient to detect trends in FDI, it is likely that FDI to the CEECs will grow, especially if economic performance is good and the political situation stabilizes. Even though the growth in FDI is not likely to grow anywhere near as fast as in the Iberian countries after their accession to the EC, growth is likely to be sufficient to cause a redirection of some FDI from the ACPs. However, at least for France, the net FDI flows to the ACPs were so small that the magnitude of the expected loss is likely to be small. At the same time, if economic performance improves in the ACPs, there is no reason why there should not be some growth in FDI.

What can one say about foreign aid? In the early days of multilateral aid under the auspices of the EC, there were fears of substitution: that bilateral aid to the ACPs would be reduced by the amount of multilateral aid going to he ACPs and that the share of bilateral aid to Associates would fall. The long term trends show a slowly increasing share of multilateral aid among EC countries. The share of bilateral aid declined from 99% in 1960 to 83% in 1988, and the share of EC aid to Associates fell from an average of 92% during 1976-88 to 67% during 1986-88. At the same time, the share of France’s bilateral aid to Yaoundé countries fell during the sixties (39% to 26%) but increased again during the eighties to reach 33% during 1985-87 (Grilli, table 2.4). However, a sharp fall in the per capita value of EC aid in real terms (from $7.0 under Yaoundé I to $2.5 under Lomé IV) created a sense of betrayal on the part of ACPs. Is there any evidence that the EAs will result in further declines in per capita aid? If one looks at aggregate figures for bilateral aids to ACP countries from EC countries, the answer seems to be no (see table 3). Bilateral aids to the CEECs increased within three years from 607 million dollars in 1990 to 13 billion dollars in 1992, with no commensurate drop in bilateral aids to the ACPs, which stay roughly constant between 7.5 and 7.9 billion dollars over the period, after a one-off drop of about one billion dollar between 1989 and 1990. If one looks at the origin of the funds, a pattern appears where British aids go down while French aids go up; this happened between 1989 and 1990 and again between 1991 and 1992. However this pattern is not due to increased British aid to the CEECs as bilateral aids.

31 Figures broken down by country were only available from the Banque de France for 1992.
aids to the CEECs come mainly from Germany, and German aid to ACP countries has not been reduced significantly. Therefore there is up to now little evidence of "aid diversion" to the CEECs, although such a phenomenon might appear in 1993 figures (to be released soon after the writing of this paper.)

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Table 3
French foreign aid

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VII CEEC Accession and Budgetary EC Pressures

Though it is too early to tell when CEEC membership will occur, when it will occur there will be budgetary pressure on the EC. These budgetary pressures could well result in a decrease in funds available for the foreign aid. This can be seen in table 3 which details the revenues and expenditures of the EC's budget. On the expenditure side, the two largest items are expenditures on structural funds and the CAP. Since 1988, spending no the CAP has to grow more slowly than global spending. During 1989-1993, more close to two thirds of the spending on from structural funds went to low income regions (all of Greece, Ireland, Spain and Portugal, Corsica, and Southern Italy). The poorer countries will obviously oppose (or delay) CEEC membership as the pie will have to be spread more thinly. Currently, each member state contributes about 1.2% of its GNP to the EC budget.

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Table 4
EC Budget, 1992

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The extra cost (in 1991 ECUs) for CAP expenditures of having members of the EAs is estimated by Baldwin to be 30 billion ECU. To accommodate these countries by year 2000 would require a 70% increase in the EC's current budget. Under present rules, each country has veto on revenue-raising possibilities. It is therefore clear that this is a situation of impasse. Either the decision rules or the spending rules will have to be changed, or and when the CEECs join the EC. As shown in table 3, the share of the EC budget going to foreign aid is small (3.5%). It could however shrink as pressure arises from the CEECs joining the EC. In any event more than cutting will have to done if the CEECs join the EC. At this stages, what measures will be taken is anyone's guess. In any case, it is clear that the EAs and eventual EC membership are a reason for concern on the part of the ACPs.

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VIII Conclusions

This paper has reviewed the evolving EC-LDC relationship in the light of the recently
signed EAs and with particular focus on French interests in the relationship. It has argued that the Treaty of Rome Association and the following Yaoundé and Lomé Conventions have provided benefits to both sides, but mostly on the international relations and political fronts. On the EC side, the benefits of the EurAfrican relationship provided a continuity to the colonial ties and some political stability in the even economic and political relations with the former colonies. At the same time, the ACPs have been the suppliers of crucial raw materials. On the ACP side, beyond the direct benefits of aid which helped the political elites hold power, the economic benefits arising from preferential access to the EC market have been, at best small.

More importantly, the paper has argued that the non-reciprocal and preferential regime fostered in the EC-ACP relationship has been potentially detrimental to the ACPs by, if not encouraging, at least condoning the use of discriminatory incentives in the past regional agreements in among Associates.

The review of the terms of the EAs shows that, in this case as well, the benefits of market access are likely to be very small. We therefore conclude that the ACPs should not be unduly concerned with fears of displacement by the CEECs in the few products in which they compete with the CEECs in EC markets. However, a cursory inspection of the EC budget indicates that, under current rules, there will be great budgetary pressures from the CEECs when they eventually join the EC. These budgetary pressures could imply a reduction in funds for the ACPs.

The paper also looked into the political benefits for the EC, and France in particular, of the Association with the ACPs. The paper noted that ACP would loose in relative importance for the EC as the CEECs will naturally tend to occupy centre stage. It was argued that in spite of a shift in foreign policy interests towards the CEECs, enough interests will remain in pursuing the EurAfrica relationship with the ACP through the Lomé or some other Convention, when Lomé IV expires in 2000. In any event, since the economic benefits through preferential access have been minimal, the shift in foreign policy interests should have only minimal effects on the economic performance of the ACPs.
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Table 1

*Extra-EC market shares by products (%), French imports, 1992*
(products accounting for more than 5 %)

<table>
<thead>
<tr>
<th>HS2 code</th>
<th>Product</th>
<th>Poland</th>
<th>CSR</th>
<th>Hungary</th>
<th>Romania</th>
<th>Bulgaria</th>
<th>FSU</th>
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*Source: customs*
### French FDI in ACP countries (million Francs)

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*Source: Banque de France*
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**Source:** Baldwin (1994)