European Development Policy: From Lomé to Cotonou and Beyond

The European Union has, for over thirty years, regarded itself as a global leader in international development efforts. Based on the historical connection between many European countries and the developing world, the EU has adopted a specific development model founded on non-reciprocal trade concessions and largely unconditional development assistance. However, a change in development thinking during the 1990s and increased pressure from the International Financial Institutions (IFIs) led to a branch-and-root reform of European development policies in 2000. This brief seeks to trace recent changes in European development polices and to assess their effectiveness in the new international environment.

EU Development Policy in the Past: The Lomé Model

The European Community's involvement in development policy has its origins in the 1963 Yaoundé Convention, based on a provision in the Treaty of Rome that allowed non-European countries to develop a "special relationship" with the EC. In its early days, European development policy was primarily focused on current and former European colonies, but over time the nature and scope of the agreements changed to incorporate areas untouched by Europe's colonial past. While the Yaoundé Convention focused on conventional development assistance and reciprocal trade concessions, the 1970s brought large changes to European development policy. Britain's accession to the EC and a change in development thinking at the time provided the background for the adoption of the 1975 Lomé Convention. Based on a neo-liberal view of trade as the engine of economic growth and development, Lomé promised nothing less than "…a new model for relations between developed and developing States, compatible with the aspirations of the international community towards a more just and more balanced economic order"[1]. To achieve this, the Lomé Convention promoted a partnership between the EC and the so-called African, Caribbean and Pacific (ACP) countries[2], based on a common institutional framework and the provision to renegotiate the fundamentals of the Lomé Treaty every five years.

The cornerstone of the Lomé Model, which has dominated European development policy for three decades, was the granting of non-reciprocal trade concessions to ACP partner countries. Under these provisions, over 90% of ACP exports – especially primary commodities – were able to enter the European market duty free or at reduced rates. Special arrangements existed for certain agricultural products (bananas, rum, beef and sugar), allowing some ACP countries to export certain quotas at high EU prices[3]. No political or economic conditions of any kind were attached to any of these concessions, aside from the EC demand to be granted "Most Favored Nation" (MFN) status in return.

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An additional purpose of the Lomé Convention has been the provision of traditional economic assistance, in the form of grants and loans, through the European Development Fund (EDF). Aid provided to ACP countries over successive five year periods increased from €3 billion in 1975 (Lomé I) to €12.9 billion in 1995 (Lomé IV-bis). The EDF also supported two unique schemes for the stabilization of commodity prizes – STABEX and SYSMIN. Given the high price volatility of many primary commodities and the dependence of many developing countries on a few cash crops, the two schemes sought to guarantee ACP exporters a stable reference price for both agricultural and mineral products. Finally, the Lomé treaties sought to provide technical assistance in order to enable ACP countries to diversify their economies and adopt modern management standards. With the accession of Britain, the ACP group expanded, including now all of Britain's former colonies with the exception of India, Pakistan and Bangladesh.

To complement Lomé, in the 1970s the EC adopted a "Generalized System of Tariff Preferences" (GSP) offering duty free access for manufactured exports from all non-ACP developing countries. The EC GSP was adopted in 1971 and had been in place until 1995, when it was replaced with a new GSP scheme, which was again updated in 2005[4]. Various versions of GSP schemes have been offered to developing countries at different points of time. While not as generous as the concessions provided under the Lomé Convention, the European GSP is widely used by countries in Asia and Latin America and the volume of imports to the European market from developing countries under the GSP is greater than the volume of imports under the US, Canadian and Japanese GSP systems combined. In addition to the Lomé Treaties and the GSP scheme, the EC has negotiated an array of bilateral and regional free trade agreements, often granting preferential, non-reciprocal access to some of the countries involved[5]. Thus, starting from the 1970s, special association agreements have been negotiated with a variety of Mediterranean and Middle Eastern countries, with the view of contributing to their economic development. Similar agreements have been signed with several Eastern European and Balkan countries in the 1990s. These multiple and, at times, overlapping system of preferential trade agreements have resulted in a "pyramid of preferences" under which various groups of developing countries were granted different trade concessions – often unrelated to their level of economic development.

Covering the 25 year period from 1975 to 2000, the Lomé Conventions have been the backbone of the EU's relationship with its former colonies. These arrangements have been based on a developmental contract between the two sides, under which the European countries acknowledged their responsibility towards their former dependencies. Economic growth and development was to be achieved through a combination of trade preferences and aid commitments. Underpinning the system was the awareness on the part of the EC that its colonial legacies had to be acknowledged. Colonial relationships had resulted in a specific economic system in the developing world, geared towards providing primary products for the industrial development of Europe. Based on its collective responsibility for this development and historically developed interests in the ACP countries, the EC perceived itself as having a stake in their future economic development. However, by the late 1980s many viewed the Lomé model as a failure.

Countries outside the ACP framework in Asia and Latin America had outperformed ACP countries in terms of economic growth, while ACP trade with Europe had declined and technical assistance failed to spur economic diversification.

Reconstituting EU Development Policy: The Cotonou Convention

European development policy began to adjust its focus at the end of the 1980s. While it was acknowledged that the Lomé system had failed to achieve its development goals, several unrelated occurrences provided the impetus for change. Thus, it was the adoption of the 1987 Single European Act (SEA) with its vision of creating an integrated European market that eventually undermined the established Lomé system. With the adoption of the common market, the "tied aid" traditionally dispersed by member states had to be redirected towards EU exporters. Even more significantly, existing national preferential import systems had to be replaced by common European schemes. However, the development of EU-wide quota systems for the agricultural products of specific APC countries soon brought the EU into conflict with the rules of the newly established WTO. Thus, the introduction of a new EU bananas regime that favored ACP producers over Latin American producers led to a long-running WTO dispute with the US. The 1997 WTO ruling against the existing EU scheme directly challenged the basis for the non-reciprocal trade concessions offered under Lomé and therefore forced some fundamental changes on European development thinking. A change of Europe's traditional "pyramid of trade preferences" had now become unavoidable.

During the period of Lomé III (1985-90), EC member states also engaged in a review of their aid priorities. This was triggered by the debt crisis of the 1980s, during which falling commodity prices, rising world interest rates and substantial borrowing had resulted in a serious debt problem for less developed countries (LDCs). In order to address the debt crisis in ACP countries, European development aid was increasingly directed towards structural adjustment policies that emphasized cuts in government expenditure, removal of price controls, devaluation and privatization. In adopting these aid priorities, European countries were starting to follow the development thinking promoted by the World Bank and the IMF. As a result, the EU gradually moved away from its initial promise of a development partnership between Europe and the developing world. No longer were ACP countries going to be free to decide upon their own development priorities. On the contrary, from Lomé III onwards, European countries increasingly sought to dictate the national development strategies of ACP countries[6]. These developments were aided by the end of the Cold War, which removed European qualms about attaching political conditionality to their aid commitments[7]. This led to a successive expansion of EU development objectives, soon embracing poverty reduction (Lomé III), gender equality (Lomé IV), human rights, good governance and the rule of law (Lomé VI-bis).

The 1990s also witnessed a change in terms of size and geographical direction of European aid flows. While previously the ACP countries had been the major recipients of European aid and tariff concessions, this gradually began to change. As instability in

Eastern Europe and the Mediterranean increased, European aid programs became refocused to prioritize these regions, often for reasons unrelated to development policies. In 2000, EC development aid to LDCs had fallen to 39% of its total aid disbursement. At the same time, the conclusion of the Uruguay Round resulted in an erosion of ACP and GSP preferences, as GATT member states agreed upon further reductions in MFN tariffs. In addition, the 1990s saw a general reduction in aid commitments made by EU member states collectively from 0.33% of EU GDP in 1988 to 0.23% in 1998. Finally, the proliferation of aid objectives and policy instruments over a short period of time had overburdened the EC administration, leading to very low disbursement rates for aid, and a general loss of transparency and accountability. In order to address these challenges and adopt its development policy to the needs of developing countries in a changed international environment, in 2000 the EU endorsed two changes to its development policy – it replaced the existing Lomé Treaties with the new Cotonou Convention, and it initiated an overhaul of the administrative structures of EU aid policy in its "Statement on Development Policy"[8].

The Cotonou Convention adopted in 2000 will run for a period of 20 years, with a provision for the revision of the agreement every five years. The major innovations of Cotonou are related to the trade preferences offered by the EU to developing countries, leading to a fundamental restructuring of its "pyramid of preferences". In order to make its preferential trading system WTO-compatible, the Convention offers three possible trade arrangements to developing countries. All LDCs (whether or not they are part of the ACP group of countries) can participate in the EU's "Everything But Arms" (EBA) initiative that grants duty and quota free access to the EU market for all products, with the exception of military equipment[9]. All ACP countries that do not belong to the LDC group are offered the opportunity to negotiate reciprocal Economic Partnership Agreements (EPAs). These agreements that are intended to be established on a regional basis are being negotiated over the 2000-2008 period. From 2008, it is intended that the EPAs will be phased in over a 12-year transition period. Finally, all developing countries that are part of neither group are being offered to participate in a new EU GSP scheme that will be in place after 2007. In terms of development aid, the Cotonou Convention has also introduced several changes, abolishing STABEX and SYSMIN and introducing performance criteria and political and economic conditionality. The breaching of either condition can lead to a suspension of aid flows by the EU.

The "Statement on Development Policy", also adopted in 2000, set out several detailed administrative reform proposals. "EuropeAid", a new organizational division, was created within the European Commission to undertake the implementation of aid programs. At the same time, coordination and complimentarity of Commission aid programs with EU member states and the IMF and the World Bank was emphasized. Poverty reduction was identified as the overruling objective of EU development aid and seven broad areas were identified, where the EC could make a special contribution – the link between trade and development, regional integration, macro-economic support, transport, rural development, health and education, and institutional capacity building. Finally, the process of de-concentration transferred many oversight responsibilities to the

EC Delegations in developing countries. Administrative reforms began to show some effect in the early 2000s, when the backlog in aid disbursements could be reduced and the share of EC aid directed to LDCs was increased to 44%.

EU Development Policy in the Post-Cotonou Era

While the European Union has been going through a difficult period of adapting its development policy to the new international environment and has been widely criticized for not giving enough attention to the worlds poorest, European countries collectively continue to play a leading role in development policy. Indeed, in comparison to the rest of the industrialized world, Europe's record remains convincing. Thus, a recent report assessing the access of developing countries to EU markets over the 1999-2003 period demonstrated that some 17% of EU imports originate in developing countries, amounting to around €362 billion worth of trade[10]. If intra-European trade is excluded, imports from developing countries, in fact, amount to 41%, clearly demonstrating their importance to Europe's trading position. Contrary to the EU's protectionist image, EU member states have granted developing countries wide-ranging access to their markets and by 2003 80% of their exports have entered the EU market duty free, or at reduced rates of duty. Most advantaged are the ACP countries, which still enjoy special trading relations with the European Union and in 2003 paid full duty on only 3% of their imports to the EU. Finally, the EU collectively remains the largest provider of development assistance, totaling €43 billion in 2005, of which €6.2 billion are directly administered by the European Commission.

Following the UN World Summit in 2005, EU member states agreed to further increase their development aid budgets in order to be able to meet the Millennium Development Goals (MDG) in time by 2015. Indeed, the EU agreed to a new interim target for official development assistance (ODA) for 2010 of 0.51% of GNI for all member states (0.17% for the new member states). Meeting this target will be essential in order to achieve the 0.7% target set out by the UN for 2015. In absolute terms this would imply an increase of European ODA of €20 billion annually by 2010. In terms of the commitments made at the UN World Summit, Europe has shouldered 80% of all new commitments required to meet the 2010 interim target. European commitments to open their markets under the auspice of the Doha Development Round, however, have been less convincing. While in principle an agreement has been reached on the abolishment of export subsidies on agricultural products by 2013, the EU offer on cutting agricultural tariffs has been received less enthusiastically. Thus, the EU proposal to cut agricultural tariffs by 40% on average, while maintaining current tariff rates on a large amount of "sensitive products", has been regarded as insufficient by the US and many developing countries.

With time for reaching an agreement on the Doha Development Round fast running out[11], it seems indeed as if both the EU and the US have backed away from multilateral trade negotiations in order to achieve their development goals. Instead, it seems likely that the EU will increasingly focus on regional trade agreements as key to achieving reciprocal trade concessions with developing countries. Relying on EPAs in order to achieve trade

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concessions with the developing world has the added advantage for the EU that it will be able to reinsert some of the "Singapore issues" into the framework of negotiations. The so-called Singapore issues include a raft of measures (investment protection, competition policy, transparency in government procurement and trade facilitation) that the EU was originally very keen to promote within the framework of the Doha Round, but failed to do so. There also has been a tendency in Europe for some time to conflate development and security policies. The result continues to be that a large part of European development assistance and trade concessions are directed at middle income developing countries in Europe's neighborhood in order to contribute to their political and economic stabilization. With the increasing development of the European Neighborhood Policy (ENP), it is likely that this tendency will continue.

A new dimension of European Development Policy in the post-Cotonou era will be the incipient competition with Russia and especially China in the field of development aid. In recent years, both countries have significantly increased their ODA budgets and have sought closer ties with developing countries in Africa and elsewhere. Thus, in 2006, China pledged to double its development assistance to Africa over the next three years and announced the creation of a US $5 billion China-Africa development fund to encourage Chinese investment in Africa. This has come on the back of an unprecedented rise of China-Africa trade, which has swollen from US $10 billion in 2000 to close to US $50 billion in 2006. The new Chinese interest in Africa is largely driven by the desire to obtain new sources of raw material and energy, badly needed to feed China's continuing economic boom. In this regard, China has had no qualms about exploiting markets shunned by western countries, such as Robert Mugabe's Zimbabwe and Omar al-Bashir's Sudan. This has also meant that just as European development assistance has adopted a more stringent political conditionality, it increasingly has had to compete with Chinese and Russian ODA and investment, which is distributed without any strings attached. The projected rise of Chinese and Russian aid for Africa, therefore, has the very concrete potential to undermine European and western development goals in this part of the world.

Conclusion: The Future of EU Development Policy

In the three decades since the inauguration of the Lomé Convention, European development policy has undergone some marked changes. Under the Lomé Conventions, Europe was aspiring to the launch of a new partnership with the developing world, based on its historical responsibilities. Throughout this era, European development policy was largely relying on special trade concessions and development assistance to its former colonies. Non-reciprocal trade concessions were seen as the fastest way to achieve economic development, and development assistance was distributed without strings attached. At the beginning of the 1990s, as a consequence of the Single European Act and a change in development thinking, the Lomé model had become increasingly unsustainable.

With colonial memories fading fast and a new geopolitical constellation replacing superpower competition, Europe developed a new – less forgiving – attitude toward the

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developing world. Official development assistance was reduced and redirected towards regions where Europe had a strategic interest. Moreover, development assistance was no longer made available without strings attached. Confronted with the seeming failure of the Lomé model of interdependence and mutuality, Europeans sought greater control over the economic strategies of developing countries. Market reforms and political conditionality, seeking the promotion of human rights, the rule of law and good governance, became the underlying objectives of EU development policy. In the words of one analyst: "by this stage older 'justice' based theories of interdependence, mutuality, and legacy were becoming superfluous to the demands of market expansion, and the EU's competitive engagement with the USA".[12]

As the 1990s came to an end, under pressure from the WTO, Europe ceded with its long-held strategy of providing non-reciprocal trade concessions to support developing countries. Instead, the new Contonou Convention sought to "facilitate developing countries' integration in the world economy while monitoring the effects of liberalization".[13] The desire for a new push to better integrate the developing world in the world economy was further informed by an increasingly volatile international environment rift with failing states and terrorism. International development was increasingly regarded as key to stabilizing the new international environment in the post-9/11 era. In coordination with the International Financial Institutions and the US, the EU pursued a two-pronged strategy to achieve greater progress in development policy. On the one hand, it committed to a considerable increase of its official development assistance in line with the Millennium Development Goals. On the other hand, it was willing to concede to certain trade concessions in the agricultural sector within the framework of the Doha Development Round.

With the stalling of the latter, EU development policy seems to be moving back to a strategy based on regional trade agreements. Whether these will be a sufficient replacement for the goals of the Doha Development Round remains to be seen. Moreover, left to its own devices, it seems likely that European Development policy will continue to focus on some of the middle-income developing countries, where Europe perceives to have a greater strategic interest, while it will continue to neglect some of the economically more needy less developed countries. Finally, in the post-Cotonou era, one of the greatest challenges to European development policy is going to be its incipient competition with China and Russia over development aid to Africa. Here, greater coordination is called for in order to prevent a damaging and unnecessary competition that, no doubt, would leave the developing world as the greatest loser.

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[1] Preamble of the Lomé Convention, quoted in C. Bretherton and J. Vogler, The European Union as a Global Actor (London: Routledge, 1999)
[2] The ACP group includes 71 developing countries, most of which have been former European colonies.
[3] A 1989 study estimates that only 7% of ACP exports receive this preferred treatment. McQueen, M., & Stevens, C. (1989), "Trade Preferences and Lomé IV: Non-traditional ACP Exports to the EC", Development Policy Review, Vol. 7

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[4] The new GSP seeks to simplify the old scheme, expands the number of products that can receive preferential market access and establishes clear thresholds beyond which countries will "graduate" from eligibility for enhanced access.
[5] Some of these agreements, such as the EU-South Africa TDCA, have been criticized for undermining existing trade agreements and destabilizing traditional trading routes.
[6] Indeed, ACP countries have become increasingly excluded from the process of writing their Country Strategy Papers, which represent a roadmap for the dispersal of EU development aid.
[7] During the Cold War, superpower competition for allies in the developing world largely prevented the use of aid conditionality.
[8] The European Community's Development Policy, Statement by the Council and the Commission, http://ec.europa.eu/development/body/publications/descript/pub2_5_en.cfm
[9] Transitional agreements also exist for bananas, sugar and rice. EBA entered into force in 2001
[10] European Commission (2005), Opening the Door to Development: Developing Country Access to EU Markets 1999-2003
[11] See brief on "The Demise of Doha: The End of the Multilateral Trading System?": http://www.unc.edu/depts/europe/business_media/busbrief0705-doha.htm
[12] Gerard McCann (2003), "Recolonisation by Stealth: Global Market Liberalisation and the EU's Development Policy", Journal of Contemporary European Studies, Vol. 11, No. 2
[13] European Commission (2000), The European Community's Development Policy

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