Institute of Development Management

[Botswana, Lesotho and Swaziland]

THE LOME CONVENTION

SOME NOTES ON MARKET ACCESS AND INDUSTRIAL COOPERATION

BY

G.K. HELLEINER

OCCASIONAL PAPER NO. 5

NOVEMBER, 1978.

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FOREWORD

This Occasional Paper was prepared in October 1978 by Dr. Gerald K. Helleiner of the University of Toronto at the request of the Institute of Development Management.

Dr. Helleiner was invited as one of six resource persons to participate in a Seminar on The Lome Convention and The New International Economic Order in November 1978 in Maseru, Lesotho planned by the IDM in cooperation with the European Economic Community.

Several African ACP countries responded positively to the request to send representatives but the number doing so did not warrant proceeding with the Seminar at this time.

The IDM is pleased to make Dr. Helleiner's paper available in this form. It is hoped his observation for which he assumes responsibility, will prove stimulating and helpful particularly to those involved in discussions leading to Lome II.

George V. Haythorne
Director.

November, 1978.

Introduction

The Lome Convention was not viewed with universal favour by the rest of the world when it was first negotiated. The non-signatory developed countries saw it as a potential threat to some of their economic interests and the non-signatory developing countries saw it not only as a threat in those terms but also as an unfortunate "split" of the Group of 77. During the past few years of its implementation, many of those who were at least prepared at its inauguration to acknowledge that it seemed to constitute a (small) step in the right direction for the ACP countries have been disappointed at the slight total of its effects: aid administration has been cumbersome and slow; STABEX has been left far behind by the reforms in the IMF's compensatory financing facility, and has been disappointing in its effects, even on its own terms and "industrial co-operation" has been slow to get moving.

The negotiation of Lome II is therefore an occasion of considerable potential importance. To the EEC (and perhaps even some of the ACP) it may be sufficient simply to consolidate what has already been agreed. To the rest of the world, however, Lome II must now demonstrate that the EEC rhetoric surrounding Lome I was sincere, that a major new type of relationship is being constructed - indeed a type which could serve, it has been said, as a model for other North-South relationships. If Lome II establishes sound precedents which might eventually be extended to other developing countries by other Northern governments it will make an especially valuable contribution to the achievement of a more stable and equitable international order.

Ultimately, the real test of the value of a renegotiated Lome Convention must be whether it assists the ACP countries, singly and collectively, to upgrade and diversify their exports and thus to begin to improve their economic structures. Official development assistance can, in principle, do this; but aid is not the essence of the Lome arrangements, and it is not even evident that the ACP countries necessarily receive a higher quantity or quality of it in consequence of the Lome Convention than they would receive without it. Export stabilization schemes, however helpful they may be, do not seek to promote these broader and longer-run objectives at all. (In the way they are administered, both official development assistance under the EDF and the STABEX scheme may even generate perverse effects from the standpoint of such objectives). It is to the spheres of "market access" for manufactures and semi-manufactures from the ACP, and "industrial co-operation" between the ACP states and the EEC, that we must look for hard evidence of Lome's contribution to longer-run economic development in the ACP countries.

The principal points to be made about the Lome Convention's contribution to the development of processed, semi-processed and manufactured exports from the ACP countries are the following:

1) Access for the ACP countries to EEC countries markets is far from totally free of trade barriers;

2) There are other barriers to the entry of ACP products to EEC markets besides the traditional "trade barriers", some of which could be eased by purposeful EEC policy;

3) Supply constraints and ACP policy limitations are also important impediments which have to be overcome; in some ways Lome II could also help to overcome some of these.

1. Market Access (Trade Barriers)

It is probably too much to hope that the EEC would ever abandon the "safeguard clauses" vis-a-vis ACP exports which are admitted free of duty to EEC markets under the Lome Convention (although there is a logical case for their treatment on terms identical to those offered to other EEC members). Every International trade treaty contains escape clauses and the Lome Convention is no exception nor can one expect that the EEC will forever refrain from applying the MFA on textiles to ACP countries.

It is important, however, that these clauses be constrained in their actual use. To this end, it should be possible to negotiate the circumstances and the terms under which they are brought into play. There is a real opportunity for the Lome Convention to lead the world in the development of appropriate terms for the use of safeguard clauses, well in advance of any likely major utilization thereof (since most of the ACP countries do not pose a serious threat of "market disruption" yet).

Some points to consider:

1) It should be possible to establish the principle - recognised, for instance, in the GATT - that when one party (the EEC) ceases to afford the other (the ACP) certain privileges of market access which were enshrined in the agreement, the latter must be offered compensation for the losses resulting therefrom. By so doing, the revised Convention could somewhat reduce the uncertainties surrounding export earning prospects in the important area of processing and manufacturing, just as it purportedly seeks to do with the STABEX arrangements for primary products.

2) In this connection, as well as more generally, it will be important to ensure that the spirit of such agreements is retained, and that the EEC's obligations are not avoided through resort to so-called "voluntary" restraints (agreed, only under threat of something worse) on the part of the ACP states. The ACP countries have grounds for concern about this in view of the EEC's proposal for "trade consultation measures" which are, according to their suggestion, "to take place in the case of actual disturbances or threats of serious disorders in the industry of one of the parties concerned so as to prevent a 'sudden application' of the safeguard clause (but with-

out completely ruling this out)". [Courier, no. 51, September-October, 1978, p. 11]. This EEC proposal is alarming in its threatening tone. Any agreement for such trade consultations must be predicated on agreement, which it is now probably wise to place formally in writing in advance, that they should not inhibit the ACP countries in the development and expansion of industries in which they are efficient; these consultations must not be, as they now assuredly sound, a smoke-screen for EEC (non-tariff) protectionism.

3) Further EEC protectionist aspirations can be detected in some accounts of future "industrial co-operation", which, it seems, is to be arranged in conjunction with the already mentioned trade consultations. According to a recent paper in the official information outlet of the EEC, European Community (No. 208, July-August 1978, p.36), "To avoid difficulties in certain sensitive sectors such as textiles, petroleum products, and shoes, the Commission suggests there should be periodic consultations involving both trade unionists and industrialists. The object would be to plan jointly for the future and examine the viability of envisaged ACP investments. For instance, it would be irresponsible to encourage the development of export-oriented textile and suger-refining mills if the Community market was then closed to them". After this proposal for "strengthened" industrial co-operation, it is small comfort for the ACP to be told that "the Commission stresses that there is no question of going back on the principle of free access for ACP exports contained in Lome I". (pp. 36-37). If that principle is to be translated into effective practice, there must be strengthened formal commitments such as are suggested above, and new rules for the future.

4) Firm rules should be introduced, governing the use of safeguard clauses and "voluntary" export restraints. Where these are introduced, in addition to the payment of compensation, they must be limited as to their extent and in duration, accompanied by serious adjustment measures in the affected EEC industries, and subject to continuing monitoring and surveillance.

5) The rules of origin which govern the right to duty-free access for ACP products to EEC markets in Lome I need thorough-going reform. They are at present hopelessly complex and unnecessarily restrictive. Rather than continuing with an attempt to apply the rules on a product-by-product basis it would be preferable to employ a procedure which applied a general rule to each product case. Such a rule, for example, would apply a flat ad valorem import duty to the value of non-Lome (i.e. non-ACP, non-EEC) material inputs contained in ACP products, whatever the extent of ACP value added thereto. This is not as complex a matter for the EEC customs (and/or potential ACP exporters) as it sounds; the emergence of "value added" import tariffs, the GSP and the Lome Convention itself

have already accustomed customs authorities to the relevant kinds of documentation. The adoption of such a rule would at the same time have the effect of encouraging the process of adding value in ACP countries to EEC inputs which are then re-exported to the EEC, a form of manufacturing for export which has heretofore been encouraged far more by the US than by the EEC.

6) There are also longstanding grievances with respect to a variety of non-tariff barriers, such as sanitary regulations and the like. It is hard to see how one can limit the EEC's resort to protectionist measures which are in this way camouflaged as something else, but the point that, despite the Lome Convention, these practices continue must nevertheless be made.

2. Other Barriers to ACP Manufacturing for Export

Some of the barriers to ACP manufacturing for export remain even when official trade barriers are removed; and some of these are amenable to policy action such as could be negotiated in Lome II.

1) The trade infrastructure for manufactured exports in the ACP countries is relatively weakly developed. Export credit is slow to arrange and often not available at competitive terms. Forward exchange cover is often difficult to negotiate, and export guarantee or insurance schemes are weak or non-existant. Insurance and transport facilities for these new kinds of export products are also poorly developed. All of these infrastructural weaknesses are especially pronounced with respect to intra-ACP (or intra-developing country) trade. Relatively modest changes in the operation of existing EEC institutions (public or private) could bring the ACP countries' exporters more fully into existing trade infrastructural systems; and increased technical assistance in these areas could, in some cases, probably pay high dividends in the form of increased manufacturing for export.

2) The structure of freight rates is escalated in many sectors, just as EEC tariffs against the ACP countries used to be, so as to generate higher levels of effective protection for EEC processing the higher the stage of fabrication. These differentiated rates are not obviously the product of rational efficiency-motivated rate-setting systems and they constitute a serious impediment to the development of raw material processing for export. The EEC could undoubtedly exercise some influence over the future structure of these rates if it chose to do so. Lome II might begin by establishing some monitoring and assessment mechanism with respect to ACP-EEC freight rates.

3) In some sectors, entry to EEC markets is impeded by the existence of buyer concentration and market control. Unless ACP exporters sell to established buyers it is sometimes extremely difficult to sell at all. But these buyers may have other interests which lead them not to promote the products they acquire from what are, to them, relatively unimportant suppliers. Thus Tanzanian sisal twine, which is both cheaper and better quality than polypropylene twine, is not promoted and is inappropriately

priced by European agents who have links with the synthetic fibre industry. The EEC could commit itself in Lome II to vigorous application of its anti-restrictive business practices laws in sectors of particular interest to ACP countries. It could also, in pursuit of these objectives, commit itself to increased assistance for the development of alternative marketing channels for ACP products.

4) STABEX is biased against the development of processing for export, since it applies to raw materials only. At a minimum, the raw material content of processed raw material exports in cases in which the relevant raw materials are covered by the STABEX scheme should also be included in the relevant export earnings calculations. (Needless to say, other STABEX reforms are no less important: broadened product coverage, broadened market coverage, consideration of import price changes, increased overall size, and increased automaticity of the payments).

3. Supply Constraints and ACP Policies

Obviously, major constraints upon industrial development and export diversification would remain within ACP countries even if all external policies and Lome II were perfect in all the respects mentioned. The most intractable constraints are those which flow from shortages of management, marketing and other skills; capital; and various intermediate inputs. All that can sensibly be suggested for Lome II is that "industrial co-operation" arrangements be developed in such a way that the costs of imported technology, management, etc., be kept to a minimum; and that only the most appropriate product-mixes and technologies are sold (or transferred) to them. These objectives are probably best pursued by maximum disclosure and transparency of information, the stimulation of maximum competition among EEC suppliers, and the provision of disinterested technical assistance to the buyers in the ACP. Industrial co-operation must be offered by the EEC on a non-discriminatory basis, and must on no account be withheld or withdrawn from sectors in which encroachment on EEC markets is anticipated.

The policies of the ACP countries themselves have a major bearing on the potential development of new production and export structures. Generally, they must be permitted to develop their own strategies and policies free from foreign influences and "joint planning" exercises. In one sphere, however, the absence of an official international consensus may be generating unnecessary problems; it would therefore be helpful if Lome II were able to achieve the former consensus and thus avoid the latter problems. The issue which requires resolution is the attitude to be taken towards subsidies (direct or indirect) for the export of manufactured exports. While there is an emerging consensus among professional economists that such subsidies - at roughly the average rate of the import tariff (or tariff equivalent) - are justified, this has not as yet been manifest in universally agreed changes in the rules of the international trading game. Lome II could lead the international field if it were formally to authorize such export subsidies in the ACP countries - perhaps up to some stipulated limit - and thus formally deny the EEC the right to offset them with anti-dumping or countervailing duties.